INTERNATIONAL BANKING ACT OF 1976

HEARING

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON
BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

H.R. 13876

TO PROVIDE FOR FEDERAL REGULATION OF PARTICIPATION BY FOREIGN BANKS IN DOMESTIC FINANCIAL MARKETS

AUGUST 31, 1976

Printed for the use of the Committee on Banking, Housing and Urban Affairs

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INTERNATIONAL BANKING ACT OF 1976

TUESDAY, AUGUST 31, 1976

U.S. SENATE,
SUBCOMMITTEE ON FINANCIAL, INSTITUTIONS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 9:30 a.m., in room 5302, Dirksen Senate Office Building, Senator Thomas J. McIntyre, chairman of the subcommittee, presiding.

Present: Senators McIntyre and Stevenson.

Senator MCINTYRE. The subcommittee will come to order.

This morning the subcommittee will consider H.R. 13876, the International Banking Act of 1976 which passed the House of Representatives on July 30 of this year. This subcommittee held 3 days of hearings in January on the overall issue of regulating foreign banking activities in the United States. These hearings focused on S. 958, the earlier bill submitted by the Federal Reserve. Therefore, it is not our purpose today to engage in any detailed inquiry into the substance of the provisions of H.R. 13876. There is precious little time remaining in this Congress and the purpose of our exercise today is to try to establish the principal points of controversy surrounding this legislation and to determine whether a consensus is possible if the subcommittee and the full committee decide to move this legislation this year.

To this end, numerous witnesses are scheduled to appear today. It was explained at the time of the invitation, but bears repeating now, that written statements of the witnesses will be incorporated in the record in their entirety. It is imperative that each witness limit his testimony to no more than a 5-minute oral summary of his written statement, and less if possible. This will permit us to ask a few pertinent questions of each group and still complete our business this morning.

So with that statement, we call as our first witnesses a panel consisting of Mr. George H. Dixon, Deputy Secretary, Department of the Treasury; and Stephen S. Garner, Board of Governors, Federal Reserve System. Gentlemen, I want to welcome you here this morning. You have heard my admonition. Will you proceed in that order, Mr. Dixon.

STATEMENT OF GEORGE H. DIXON, DEPUTY SECRETARY, DEPARTMENT OF THE TREASURY

Mr. DIXON. Mr. Chairman, members of the subcommittee, it's a pleasure to appear before this subcommittee to present the administration's views on the proposed International Banking Act of 1976. In

Charts and Tables

INTERNATIONAL BANKING ACT OF 1976

TUESDAY, AUGUST 31, 1976

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accordance with your admonition, Senator, these remarks are a summary of the statement which has been submitted to you.

During the past decade international banking activity has increased dramatically both overseas and in the United States. Because of this growth it is becoming increasingly important to insure equality of operating authority for, and regulation of, foreign banks in the United States. We support the International Banking Act as a vehicle to attain these objectives.

We have also considered the bill in the context of our basic policy of welcoming foreign investment in the United States and of according comparable treatment to that of domestic enterprise. We have tried to assess and understand the concerns of foreign governments and to evaluate the legislation's potential impact on the treatment of U.S. banks, securities firms, and other financial institutions operating abroad, and on our treaty obligations.

As a result of all of these considerations we suggest that the bill be modified in several respects.

1. GRANDFATHERING OF SECURITIES OPERATIONS

We firmly believe that existing U.S. securities operations of foreign banks should be permanently grandfathered for several reasons. First, it would be unnecessary and unfair to force termination of existing securities activities which have fully conformed with our laws and have provided desirable competition and liquidity to U.S. securities markets. Second, requiring foreign banks to dispose of their interests could disrupt domestic securities firms which have received infusions of capital from foreign banks and those regional securities exchanges which have foreign bank affiliates as members. Third, there is established precedent in banking legislation for permanent grandfathering. Finally, the absence of permanent grandfathering could have unfortunate consequences for the extensive activities of U.S. domestic banks and securities firms operating overseas.

2. SPECIAL REVIEW OF FOREIGN BANK APPLICATIONS

We recommend the elimination of section 9 of the bill which would introduce special Federal screening of applications by foreign banks desiring to establish operations within the United States. Such screening would conflict with our long established open-door policy toward international investment and could set an unfortunate precedent for investment in other sectors of our economy. It could also lead to expanded restrictions on American banking activities and investments abroad.

The special process provides little additional protection to U.S. depositors or to national interests since there are already adequate safeguards. Finally, this provision would appear to be contrary to the national treatment provisions of treaties which we have with most of the major banking nations.

3. APPLICATION OF THE BANK HOLDING COMPANY ACT

We believe section 8(a) of the bill should be amended to exempt from the Bank Holding Company Act those nonbank acquisitions by

foreign banks that do not have a significant impact in the United States.

The statutory guidance which we propose is not designed to change the intent of the Bank Holding Company Act as currently implemented by regulations of the Federal Reserve Board. It is desirable, however, for two reasons. First, the existing exemption process creates considerable uncertainty for foreign banks in determining which foreign nonbanking activities or acquisitions are permissible. This uncertainty should be reduced as much as possible. Second, it is desirable to assure by statute, rather than merely by regulation, that the Bank Holding Company Act does not apply extraterritorially.

While we have not had the opportunity to thoroughly review the Federal Reserve Board's proposal in this area, it appears to accomplish these objectives in a manner which we can support. And parenthetically, Mr. Chairman, my written testimony which was drafted before we had a chance to review the Fed's proposal differs slightly from that observation.

4. MANDATORY DEPOSIT INSURANCE

The administration is concerned about two aspects of section 6. While we believe that deposit insurance is desirable, foreign banks should be given the opportunity to elect coverage. The benefits of FDIC insurance have been clearly demonstrated, and insurance should prove attractive to foreign banks if its cost is not unduly burdensome. We believe the insurance provision currently contained in the bill would not meet this standard and that foreign banks would not likely elect coverage if participation were optional. As a mandatory requirement it would create an unfair burden on foreign banks. It could be also interpreted as a departure from national treatment and thus inconsistent with certain of our treaty obligations.

We recommend that section 6 be amended along lines proposed to the committee by the FDIC in its letter of August 26. That amendment would (1) make insurance optional and (2) offer a form of deposit insurance which would not be unduly burdensome and which would represent a viable and sought-after program for branches of foreign banks.

In summary, let me reiterate the Administration's belief that this bill is a good vehicle for achieving more equal treatment between foreign and domestic banks in the United States. We favor passage of the International Banking Act of 1976 with the modifications suggested in my testimony today.

We have prepared proposed amendments incorporating these modifications which we will be glad to discuss with members of your staff. Mr. Chairman, at the conclusion of Governor Gardner's testimony, I will be pleased to answer questions which you may have.

Senator McIntyre. Thank you, Mr. Secretary.

STATEMENT OF STEPHEN S. GARDNER, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. Gardner. Mr. Chairman, I'm delighted to be here. The Board, as you know, in former testimony has made a point very similar to yours, that this bill has been through a great deal of congressional

debate prior to this session and prior to this meeting of this committee. Judging from the issues before us and the issues that have been raised both in the press and in the House, I think we can develop an effective consensus through the kinds of amendments that Deputy Secretary Dixon has just described. In fact, the Board has prepared amendments as well and this may be a case of the Federal Reserve and the Treasury vying to submit amendments to the bill that are consistent. I hope you will look at our amendments, particularly the amendment that removes the act's unintended effects on foreign banks which are structured abroad in a different form than our banking laws permit in the United States. We propose in our amendment to remove the constraints in the Bank Holding Company Act for those foreign banks that are properly organized at home and have equity investments abroad in various commercial or industrial enterprises, including businesses that may conduct activities in the United States, as long as the principal business of those banks is done worldwide outside the United States and the principal business of those nonbank enterprises is also done worldwide outside of the United States.

I think this is a very significant amendment and it goes particularly to the problems expressed by the European Economic Community banking community and by others abroad.

On the issue of grandfathering, I want to simply augment Secretary Dixon's remarks. It seems clear to us that the issue of the relationship between the securities business and commercial banking in the United States under the Glass-Steagall Act is undergoing review in Congress, as well it should, and I think permanent grandfathering of those institutions that had such arrangements prior to December 4, 1974 is the most responsible and fairest way to proceed.

In the matter of monetary policy controls, it's pretty obvious that the growth of foreign banks has been extraordinary in the United States. In the last 9 months alone, foreign bank assets in the United States have grown by 10 percent while weekly reporting banks' growth has been in the neighborhood of 3 percent. We find among the 80 foreign banks in the United States that only 4 or 5 do not have $1 billion of assets worldwide. I think it's important for our economy that these large foreign banks be subject to monetary controls. It's important for our national interest and it's entirely consistent with the kinds of monetary policy controls that are exercised abroad on our banks that we have similar monetary policy controls on reserves and interest rates ceilings and the like on foreign banks as proposed in our testimony.

DEPOSIT INSURANCE

Again, the United States has a highly developed system, a highly effective system, one that could stand as a model for many foreign countries. We understand that the FDIC is now proposing a system of deposit insurance which would be comparable to the existing deposit insurance requirements in the United States and I think the Board could find support for that proposal. I also think that it is very important that we have such a proposal.

Of the 416 banks in the United States that are not insured, I want to point out that 77 are nondeposit trust companies and 147 are mutual savings banks. So there are only 192 commercial banks in the United States that are not insured and the largest collection of those banks is in Colorado, and Colorado doesn't admit foreign banks.

INTERSTATE BRANCHING

We have a very modest change for the House bill which would remove the test of the McFadden Act and substitute another test so that while Congress debates and studies the McFadden Act we would not be unnecessarily prejudging the outcome of that debate.

On Federal oversight of entry, I think I'm concerned only that the 50 State bank regulators and the U.S. bank regulators are occasionally or could occasionally be handed a problem of specific foreign policy or foreign economic policy and I think there should be some mechanism by which those in Government who are charged with administering our foreign economic policy can bring their views to the bank regulators.

I agree with Secretary Dixon that we need no particular set of guidelines or policy directives because, inherent in the licensing and chartering procedures of the banking regulators there are ample tests to control and to assure that banks coming to the United States are responsible and well-capitalized banks.

Mr. Chairman, I think the Federal banking regulation amendments and the work that Congress will inevitably be doing this next year or in the months ahead will go much more smoothly if we developed and found useful the kind of proposal that the House has passed. I earnestly hope that the Senate will give particular attention to this bill and the amendments that I have proposed in our Federal Reserve testimony because I think banking regulation amendments will be much fairer and much easier and much more appropriate if we address those issues at a time when there is comparability between foreign banking regulation and U.S. banking regulation. I think that the particular criticisms that have been most heavily publicized in recent months could be very significantly diminished by your committee's attention to the amendments we have proposed and I will be delighted to answer questions and I appreciate the opportunity to be here.

Senator McIntyre. Are either of you gentlemen in a position to comment on a proposal forwarded by the FDIC regarding insurance of deposits in branches of foreign banks?

Mr. Gardner. I have not seen the August 26 letter, Mr. Chairman, but I'm told that the FDIC suggests a form of insurance roughly comparable to insurance for U.S. banks, that would probably meet the Board's requirements. I would however, like to submit a later statement for the record after having reviewed the FDIC plan. As I understand it, it does go to almost everything that we have proposed. The letter has just been handed me and I'm sure you don't want me to read it here; I will submit an additional statement for the record and I presume at this time that we can support that proposal.

[Governor Gardner subsequently submitted the following letter for the record:]

Board of Governors
of the Federal Reserve System,
Washington, D.C., September 8, 1976.

Hon. Thomas J. McIntyre,
Chairman, Subcommittee on Financial Institutions, Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C.

Dear Mr. Chairman: I would like to submit for the record, as you requested, my views on the alternative deposit insurance proposal that was suggested by Chairman Barnett of the Federal Deposit Insurance Corporation in his comments

on H.R. 13876. I would also like to comment briefly on the statement made by Chairman Hills of the Securities Exchange Commission which you referred to at the end of my testimony.

In his letter of August 26, 1976, Chairman Barnett stated that the FDIC had reservations with respect to the type of deposit protection contemplated by section 6 of H.R. 13876. As indicated in my testimony before your committee, the Board also has reservations about the cost and effectiveness of the surety bond or pledge of assets requirements of Section 6. Chairman Barnett, however, further indicates that the FDIC is now prepared to endorse a deposit insurance program for U.S. branches of foreign banks.

Under the FDIC's proposed plan, foreign banks' domestic branches would be given the option of applying for regular deposit insurance. If they chose to become insured, branches would become subject to a much less onerous form of surety bond and pledge of assets requirement that would be designed solely to give the FDIC fund a measure of added protection. It is stated by Chairman Barnett that domestic depositors would be fully protected up to $40,000 just as depositors in domestic insured banks. Chairman Barnett concludes that this approach of combining regular deposit insurance coverage with a modified form of the surety bond and pledge of assets requirement would be an acceptable compromise from the FDIC's standpoint as it would put foreign banks on as equal a basis as possible with domestic banks and would at the same time afford appropriate supplemental protection to the deposit insurance fund.

The Board believes that, given the proven effectiveness of the FDIC insurance system, it would be preferable to extend insurance to offices of foreign banks in lieu of the surety bond and pledge of assets requirement in section 6 of H.R. 13876. I think the FDIC's new proposal would be an acceptable solution from the Board's standpoint since it would extend regular deposit insurance coverage to branches of foreign banks. The modified form of the surety bond and pledge of assets requirement would seem appropriate in light of the legal and supervisory problems inherent in insuring deposits at an office of a bank organized and primarily operating outside the United States. I would anticipate from Chairman Barnett's letter that these additional requirements would be structured in a way that would substantially equalize the cost of insurance for both domestic and foreign banks.

I would like to note, however, that the Board has consistently recommended that insurance be made mandatory. Virtually every commercial bank in the United States is insured. We see no discrimination in requiring insurance for foreign banks as all national and State member banks are required by law to be insured and all commercial bank subsidiaries of bank holding companies are also required to be insured, even though in many cases these banks conduct primarily a wholesale business. We therefore believe it to be consistent with national treatment for foreign banks to be under the same FDIC requirements that apply to all of their large commercial bank competitors in this country.

I would also like to comment on the statement made by Chairman Hills of the SEC which you read at the end of my testimony. Essentially, it appears that Chairman Hills believes that until Congress or the courts clarify the extent to which domestic banks may engage in investment banking activities, it is difficult to determine exactly which activities foreign banks should be allowed to continue to engage in. Chairman Hills' statement really focuses on the problem of attempting to grandfather some but not all of the existing activities of foreign banks, as is attempted in section 8 of H.R. 13876. Permanent grandfathering of all existing activities avoids this problem of attempting to fine tune limitations and is the most practical solution at this time. The real issue in grandfathering is not competitive equality; rather, it is one of fairness and of assuring foreign investors that investments made in good faith will be honored.

Best wishes.

Sincerely,

STEPHEN S. GARDNER,
Vice Chairman.

Mr. DIXON. Mr. Chairman, may I just add that the August 26 letter, as I understand it, differs from the earlier attitude of the FDIC toward providing insurance for foreign banks in that it offers a combination of an insurance policy together with some pledge of assets for the procurement of a surety bond by foreign banks and it's expected that the aggregate of these things will produce a cost which is lower

than that perceived in the earlier proposals of the FDIC which involved only a surety bond and a pledge of assets.

The FDIC is clearly anxious to develop some risk experience but I think their expectations are hopeful ones. We agree with Governor Gardner and think we can support this new proposal.

Senator McIntyre. Mr. Secretary, the testimony of the EEC banking federation is devoted almost exclusively to their concerns with section 8, specifically in paragraph 24 where the statement is made, and I quote:

> The only fair and convenient solution would be to apply the Bank Holding Company Act exclusively to the legal relationships established in the United States and not to take into consideration those relationships established outside the United States between foreign banks and nonbanking firms in accordance with their domestic legislation.

In both of your statements you seem to be attempting to meet this concern head-on. Are you satisfied, Mr. Secretary, that the European banking concerns have been addressed in your statements and, also, are you in a position to comment on the specific proposals contained in the Federal Reserve's testimony regarding section 8?

Mr. Dixon. With respect to the EEC statement, Mr. Chairman, I think that behind that entire statement there lies some philosophical difference between the attitude of the principal European countries and this country, philosophical differences in that the European countries look at banking abroad in a reciprocal sense; their feeling being that their banks operating in this country should be accorded the same treatment that our banks or foreign banks operating in their country should be accorded.

By contrast, in this country, we have a long established policy of according national treatment to foreign banks and, indeed, many foreign investment enterprises which operate in this country. I think we have tried to address that philosophical difference as nearly as we can while being consistent with this country's history of national treatment.

Senator McIntyre. Mr. Gardner, can you comment further?

Mr. Gardner. Since we drafted the amendment, Mr. Chairman, I think it goes to the heart of the problem. It would affect the application of the Bank Holding Company Act here in the United States to relationships between foreign banks and foreign subsidiaries principally engaged in commercial or manufacturing activities abroad. We do, however, set out certain rules. The foreign company must be principally engaged in worldwide business outside the United States and, with respect to relations in the domestic economy, we provide that any credit extended from a domestic branch or subsidiary of a foreign bank to a domestic office of a manufacturing, mining or commercial subsidiary of that same foreign bank abroad, ought to be at market rates. We use the term "arm's length" credit transactions in my statement.

It should be noted that in examining banks, an examiner can determine whether there's any extraordinarily preferential treatment being given between organizations that have a similar parent. Accordingly, this requirement seems to us to be a perfectly reasonable proposal and it also is a proper competitive proposal. We don't want foreign banks

here making 2-percent loans to their foreign commercial subsidiaries that do business here; but I don't think they would anyway. If they make loans at normal market competitive rates, then they will probably have no difficulty at all in complying with our proposal.

Senator McIntyre. Mr. Secretary, there has been much discussion on the Stephens and the Rees-Murphy amendments which were offered on the floor of the House and rejected at the time this bill was passed. Would you please comment on these two amendments?

Mr. Dixon. Mr. Chairman, the administration has opposed those amendments. The amendment to section 5 would permit foreign banks to establish State branches in as many States as wish to attract foreign branches. We support the current language of section 5 which would prohibit foreign banks from establishing new interstate banking operations as long as national banks are prohibited from forming interstate branches. Since domestic restrictions apply to the large domestic competitors of foreign banks, it would constitute as we see it an unfair competitive advantage to foreign banks when not subject to these domestic restrictions.

The other Stephens amendment covers section 6 of the bill and it would remove State branches and agencies from the supervision and regulation of the Federal Reserve. We believe it's desirable for purposes of monetary control and regulation to have both State and Federal branches and agencies subject to central bank monetary authority and supervision. Furthermore, if the Stephens amendment were adopted there would be an incentive for branches to adopt for State rather than for Federal licensing to avoid Federal regulation.

With respect to the Rees amendment, which as I understand it in general terms, Mr. Chairman, would grandfather foreign securities firms subject to periodic, I think every-3-year reviews by the SEC and the Federal Reserve. That amendment isn't too far from where we have stood, but we would prefer the position which we have already set forth in our testimony to permanently grandfather the existing securities operations of foreign banks.

The Rees amendment, it seems to us, would more rigidly structure the oversight process, but it's an oversight process which really already exists within the regulatory authority of the Fed.

Senator McIntyre. Mr. Gardner, can you comment briefly?

Mr. Gardner. Yes, Mr. Chairman. The Rees amendment, as Secretary Dixon has said, although I don't like to use ethnic phrases, is characterized as building a Chinese wall between the commercial and investment activities, of banks with securities affiliates. This seems to us in a way to prejudge Congress' debate on the Glass-Steagall Act.

We believe it is unnecessary in this instance. We have testified in the past about the size of these securities affiliates and their importance in the United States and the fact that a grandfathering provision appears to be the best solution. It would be almost impossible to attempt to write a complex. detailed set of specific regulations that would enjoin banks and their related securities affiliates from having any dialog or any exchange of information. There's much made in the domestic banking business of building such constraints between commercial and trust departments in commercial banks and I think those debates ought to be pushed over to further changes in bank regulation.

The process would surely be complex and, at best, would not assure an effective solution to the problem.

The Stephens amendment gives us great trouble simply because it essentially leaves the present situation, the status quo, as it is. That is not national treatment: That merely preserves the competitive advantages of foreign banks. So we have argued against those amendments and that material has been part of the public record.

[Governor Gardner subsequently submitted the following letter for the record:]

FEDERAL RESERVE BOARD,
Washington, D.C., June 30, 1976.

Hon. FERNAND J. ST GERMAIN,
Chairman, Subcommittee on Financial Institutions, Supervision, Regulation and Insurance, Committee on Banking, Currency and Housing, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing in response to your request for comments on certain amendments to H.R. 13876—The International Banking Act of 1976—that are proposed by The Honorable Robert G. Stephens, Jr.

As you know, in my letter of April 30, 1976, I wrote to offer the Board's strong support for the enactment of the proposed International Banking Act of 1976, which had been introduced as H.R. 13211. Since that time, H.R. 13211 has been reintroduced as H.R. 13876 and the process has undergone several changes both in your Subcommittee and in the full House Committee on Banking, Currency and Housing, which changes generally have made the legislation correspond more closely to the Board's own legislative proposal in this area—the "Foreign Bank Act of 1975", which was introduced as H.R. 5617. In this regard, I would like to reiterate the Board's strong support for enactment of H.R. 13876 during this term.

With respect to the amendments proposed by Congressman Stephens, the Board is most concerned with the proposed amendment to exempt all State-licensed branches, agencies and commercial lending company subsidiaries of foreign banks from the Board's monetary and bank supervisory controls. Under the proposed amendments, the Board would only be given authority to impose monetary and bank supervisory controls on Federal branches and agencies of foreign banks and to subject such offices to reporting requirements. Since there are now *no* federal branches or agencies of foreign banks and since there would be little incentive to organize such operations under the proposed amendments, the Board's authority would largely be illusory.

The Board urges that the amendments proposed by Congressman Stephens to Section 7 of H.R. 13876 not be adopted by the Congress. As of April, 1976, foreign bank agencies, branches and commercial lending companies had total assets in this country of approximately $47 billion and total liabilities that could be subjected to reserve requirements of approximately $22 billion. In the Board's judgment, such substantial banking operations should not be exempted from federal monetary and bank supervisory controls. While it is true that domestic banks organized under U.S. law have a choice of being subject to System controls, it is equally true that virtually all large money-center banks are members of the System and subject to the Board's policies. Unlike State nonmember banks which operate primarily in local banking markets, U.S. offices of foreign banks rely extensively on advances from their head offices and other foreign sources and are very active in U.S. money markets. Accordingly, their activities can have a substantial impact on conditions in domestic financial markets and on the international transactions of the United States. In addition, unlike most State nonmember banks, they are involved with international trade financing and wholesale banking. Accordingly, the approach of the proposed amendments to Section 7—that of equating foreign bank branches, agencies and subsidiaries with State nonmember banks—is not, in our judgment, justified from either an economic or a regulatory viewpoint.

The proposed amendments would also amend Section 5 of H.R. 13876 by striking out the provision in Section 5(a) which, in the future, would subject foreign banks to the same interstate branching restrictions that now apply to national banks under the McFadden Act. Under the proposed amendments, a foreign bank could establish branches in any number of States, so long as each State approved

the establishment of the branch within its borders. In addition, Section 5(a) would also be amended so as to prevent a foreign bank from establishing a federal branch outside of its home State unless the receiving State expressly permitted entry; under the existing Section 7, a foreign bank cannot establish a federal branch outside of its home State if the receiving State *prohibits* entry.

In its own legislative proposal, the Board recommended that, consistent with the policy of national treatment, foreign banks be subjected to the same interstate banking restrictions that apply to domestic banks. Specifically, under the Board's proposed bill, a foreign bank would only be able to establish a branch outside of its home State if a State bank headquartered in that State could do so. In addition, the Board has generally recommended in its own proposals that the States not be given the ability to veto the entry of federal branches of foreign banks.

While there are differences between Section 5 of H.R. 13876 and the Board's proposal, Section 5 does accept the principle of national treatment and seeks to equalize the ground rules for interstate banking competition between large domestic banks and foreign banks. In contrast, the proposed amendment to Section 5 would endorse the *status quo* and would thus continue to permit foreign banks to engage in multistate branching operations not permitted domestic banks. The Board prefers section 5 of H.R. 13876 in its present form because it would, in our judgment, be more consistent with the principle of national treatment.

I hope that these comments will prove helpful in your continuing substantial efforts to enact appropriate legislation on foreign bank operations in this country.

Very truly yours,

ARTHUR F. BURNS.

Senator MCINTYRE. Mr. Gardner, in the testimony of those representing the Conference of State Bank Supervisors, they maintain that the on State restriction under section 5(a) of the bill is unnecessary and contrary to our national interests, and an unwarranted preemption of our State laws. Would you please comment on that?

Mr. GARDNER. Well, I guess that's an understandable conclusion on the part of the State bank supervisors. Many of them would like to attract more foreign banks and since there are some 80 very large foreign banks that are presently doing business in the United States, some with multi-State operations, I think any State, any city, any urban area that wishes to attract foreign investment would like to attract foreign banks and they don't want the list cut down from the existing group.

On the other hand, it's very clear that that's the way our national policy applies to domestic banks, and so I find it curious that they believe foreign banks should not have to comply with this policy. I think your committees in the Congress will wisely consider interstate banking in the United States and I think you should. But, at the same time, I don't see any real basis for perpetuating an unintended competitive advantage for foreign banks in the United States by permitting them multi-State operations through branches, agencies and subsidiaries.

Senator MCINTYRE. Mr. Secreatry, do you want to comment?

Mr. DIXON. No further comment.

Senator MCINTYRE. The Conference of State Bank Supervisors maintains the provision of section 7 discriminates against foreign branches in a manner to motivate retaliation which would violate the public interest. Could you comment on that?

Mr. GARDNER. Well, I would like to comment on that by touching on the point made by Secretary Dixon. When our banks go abroad they are inevitably required to comply with what laws exist abroad and the idea that reciprocity permits banks to do something in another country that is not permitted to domestic banks in that country is again a very curious idea for me. I think we have not only a

unique banking system but also, as you know, far more banks than most developed countries, a very competitive climate in banking. We have a particular form of bank regulation which has served the United States quite well, and part of that system of bank regulation is the dual banking system. It gives the States the rights to charter banks and it also gives the Federal Government the ability to charter banks. So I think we have to look significantly or purposefully at our basic form of banking in this country and without imposing any great constraints on foreign banks, I think it's very clear that they should be put on a comparable footing with our banks at home and I think that is the purpose of section 7.

Senator McIntyre. What would be the impact of this legislation on the ability of cities such as Houston, Tex., to become international financial centers.

Mr. Dixon. A case can be made, Mr. Chairman, that Houston is already an international financial center. As a former banker, the last count I remember was that Houston, Tex., a year or two ago had more than 25, and I expect the number is larger today, Edge Act banks or other commercial banking installations, which operate internationally. I would think that with the authority that this act would give to foreign banks to establish Edge corporations, a city that has as much international activity as Houston, Tex., would have a further opportunity.

Senator McIntyre. This wouldn't interfere at all in your opinion with Houston going ahead with its international banking hopes; is that right? This legislation would not interfere with Houston?

Mr. Dixon. No. It would not interfere.

Senator McIntyre. What justification is there, Mr. Gardner, for the Federal Reserve to be given absolute veto in section 7(e) over future establishment of State branches when there has been none in the past.

Mr. Gardner. Well, Mr. Chairman, it first of all insures a uniform Federal regulatory standard for foreign bank entrance into the U.S. market. The power to approve future expansion is also a supervisory tool that is used very extensively by the bank regulators and it's applicable to our banks that are members of the Federal Reserve System; that is, our national and large State member banks, and this is what we are really talking about. Some 80 foreign banks in this country are of a size and importance that is very similar to the major U.S. banks in the various State capitals and important cities, not just the money centers in the United States. I think this is a regulatory tool that has proved to be very valuable in our oversight of U.S. banking institutions. I don't see anything discriminatory or unique about this section, since if a bank is a nonmember State bank and insured by the FDIC, it also must obtain FDIC approval to establish additional branches.

Senator McIntyre. Let me ask you, would it not be satisfactory to provide for consultation between the Federal and the State authorities on the establishment of State branches rather than to grant an outright prior approval authority to the Fed?

Mr. Gardner. Well, this is the kind of competition—is that what you said?

Senator McIntyre. Consultation.

Mr. GARDNER. Well, I suppose that that might dampen some of the criticism, but I insist that for banks that are presently under the aegis of Federal regulators and, indeed, almost 98 percent of our banks are, this is a very common supervisory provision. It can be very useful in the case of supervisory problems with a bank and it seems perfectly appropriate to apply it to foreign banks in the United States. In the vast majority of cases there's no problem with the States and the Federal agencies agreeing. Indeed, there exists today a careful process whereby State bank regulators' views are taken into consideration by Federal regulators, even though the final authority rests with the Federal supervisor. It would seem appropriate to apply a similar system to foreign banks.

Senator McINTYRE. Well, given our present arrangements, would it be a satisfactory compromise to have the Federal Reserve setting authority as contained in section 7 pertain only to Federal branches?

Mr. GARDNER. Well, there are, as you know Mr. Chairman, no Federal branches today. That was one of the problems with the Stephens amendment.

Senator McINTYRE. Well, there would be Federal branches, wouldn't there, under this bill that we have before us?

Mr. GARDNER. Yes, sir. There would be Federal branches but there also would be regulatory controls extended to almost all foreign banks that have chosen to come here, Federal regulatory control, whether they choose State chartering or whether they choose a Federal branch. If you set up a system where it's obviously more beneficial for a particular form of organization to be chosen, then I don't think that that is as basically a sound approach as we have in our existing law.

Mr. DIXON. Mr. Chairman, could I add to Governor Gardner's comments by saying that that compromise would be very difficult for the administration and the Treasury to accept. Further, it would appear to me that under the compromise proposal there are very few, if any, foreign banks that would elect a Federal branch option.

Senator McINTYRE. Mr. Gardner, the Treasury maintains that section 9 should be deleted from the bill. What do you think?

Mr. GARDNER. In my testimony, Mr. Chairman, we have also commented that we see no need for policy guidelines. Section 9 also contains, I believe, provisions whereby the views of the Treasury and State Department are solicited by bank regulatory agencies. If section 9 is deleted we would not withdraw our support for the bill. On the other hand, we do call the committee's attention to the fact that there probably should be somewhere in the bill a way for the bank regulators to obtain the foreign policy advice of those in government charged with executing foreign policy and here we're talking about the unusual, unique and very incidental situations that can occur between governments.

Therefore, we recommend your committee's consideration of this issue, but if this portion of the bill is removed we would still support the bill.

Mr. DIXON. Mr. Chairman, may I comment on section 9 as well?

Senator McINTYRE. Yes.

Mr. DIXON. I mentioned in my comments that there are some existing safeguards to protect the national interest which seems to be the thrust of section 9. Those safeguards are severalfold. First of all,

with respect to all foreign investment, there exists or has existed since the early part of 1975 what is known as the Committee on Foreign Investment in the United States which is charged with reviewing all investments which have a significant impact on U.S. national interests. That review applies to private as well as to government investment and has worked pretty well to our knowledge so far. Advance consultation procedures by foreign governments are required with respect to governmental investment and any foreign government investment in the banking sector would be expected to be brought to our attention by the government concerned.

There also are emergency powers which are contained in such laws as the Trading with the Enemy Act and the Foreign Assets Control Act which enable us to prevent abuses of foreign investment in some extreme circumstances.

Finally, the provisions of the International Banking Act as it now stands, as I understand it, would give the Federal regulatory and supervisory authority over activities of foreign banks and provide substantially increased safeguards of the kind that section 9 seeks and, in our view, make the special screening procedures unnecessary.

Senator McIntyre. Gentlemen, what would be the harm in striking section 8 altogether? We don't need to get into that, do we, really?

Mr. Dixon. I think we do.

Mr. Gardner. Mr. Chairman, I think you do. I think you ought to grandfather the securities affiliates that are already here. They have apparently become very important to our regional exchanges and we would leave a great veil of uncertainty surrounding the future if we don't take action on section 8. Further, section 8, as I'm addressing it, would contain I hope the proposed amendment that would clarify by statutory amendment the application of the bill to foreign nonbanking interests of foreign banks I think this is terribly important. Again, we should not have the kind of system that gives inherent advantages to foreign banks over our domestic banks. We seek parity, comparability, and section 8 is integral to that process.

Senator McIntyre. Mr. Secretary, do you agree that we should try to keep it in?

Mr. Dixon. Yes, sir.

Senator McIntyre. Let me read you a letter we received from Roderick M. Hills, Chairman of the SEC and he says in his letter dated—which I will make part of the record of course—August 27:

> We suggest to the committee that there may be a problem in making the extent of permissible foreign bank activities in this area dependent upon the extent of permissible domestic bank activities at a time when it is not clear what securities related activities domestic banks may engage in. Conceivably, once a scope of permissible activities for domestic banks is clarified, whether by legislation or court decision, it will be possible to draft a provision which would more precisely define those activities which foreign banks would freely engage in which activities it is appropriate to protect by means of a grandfathering provision and which activities should be prohibited.

Well, gentlemen, I want to ask you to comment on that. I thank you very much for being here. I appreciate very much your being here this morning.

[Complete statements of Mr. Dixon and Mr. Gardner, a copy of H.R. 13876, a reprint of House Report No. 94–1193, and letters from the FDIC, the SEC and the Treasury Department follow:]

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE GEORGE H. DIXON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SENATE COMMITTEE ON BANKING,
HOUSING AND URBAN AFFAIRS
AUGUST 31, 1976

The International Banking Act of 1976 (H.R. 13876)

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before this Subcommittee to present the Administration's position on the proposed International Banking Act of 1976 (H.R. 13876). At the outset, I should note that the Administration supports the bill and urges its passage with certain modifications which I will discuss.

Broadly speaking, we feel that the bill is an appropriate vehicle to achieve, with respect to foreign banks operating in the United States, (1) more equal treatment with domestic banks and (2) the degree of supervision and control necessary for the maintenance of sound regulatory and monetary policies.

Basic Reasons for Administration Support

During the last decade, international banking activity has increased dramatically both overseas and in the United States. This growth is related to the extraordinary increase in international trade in the post-World War II period and the reduction of international barriers to financial and investment flows. Total assets of foreign banks in the United States have increased ten-fold from about $6 billion

at the end of 1966 to about $64 billion at the end of 1975. During this same interval, U.S. banking activities abroad have increased even more rapidly. The assets of foreign branches of U.S. banks grew fourteen-fold from about $12 billion at the end of 1966 to $176 billion at the end of 1975.

This dramatic growth illustrates the increasing importance of international banking and the need to ensure equality of operating authority for, and regulation of, foreign banks in the United States. It also suggests that we must consider carefully the effect that U.S. regulation of foreign banks will have on foreign government treatment of U.S. banks, securities firms and other financial institutions operating abroad.

Our policy towards foreign banking in the United States should also be considered in the context of our overall policy on foreign investment in this country. Our basic policy is to welcome such investment and to accord foreign investors treatment which is comparable to treatment of domestic enterprise. As a result, the Administration considers it desirable and important to achieve comparable treatment of foreign and domestic banks in the United States.

Under existing law, there are significant disparities in treatment. For example, foreign bank branches and agencies are not currently regulated or supervised by any Federal banking agency, while virtually all domestic banks come under the regulation of the Federal Reserve, the Comptroller of the Currency, or the Federal Deposit Insurance Corporation. This gives foreign bank branches and agencies some advantages. On the other hand, foreign banks in the United States are denied certain opportunities available to domestic banks.

The International Banking Act of 1976 will, to the extent possible, alleviate many of the existing disparities. It will provide more comparable Federal regulation and supervision. It will permit foreign citizens to become majority shareholders and directors of Edge Act Corporations and to occupy nearly half of the directorships of foreign-controlled national banks. In addition, it will impose restrictions on interstate branching by foreign banks which are comparable to restrictions applied to domestic banks, while grandfathering existing multi-state operations. Foreign banks will also be prohibited from simultaneously engaging in commercial banking and securities activities in the United States, although in this instance existing operations will be grandfathered temporarily.

Proposed Changes in the Bill

The Administration recommends that the bill be modified in several respects.

1. Grandfathering of Securities Operations

We firmly believe that existing U.S. securities operations of foreign banks should be permanently grandfathered. Section 8(c) of the bill requires that foreign banks now lawfully engaged in selling and distributing securities in the United States must terminate these activities by December 31, 1985.

The Administration strongly supports permanent grandfathering for several reasons. First, securities affiliates have been operating in good faith in the United States, in some cases for over 35 years. It would be unnecessary and unfair to force termination of existing securities activities which have fully conformed with our laws and have provided desirable competition and liquidity to U.S. securities markets. Second, requiring foreign banks to dispose of their interests could disrupt domestic securities firms which have received infusions of capital from foreign banks. Third, it has not been shown that domestic financial institutions would be injured by permanent grandfathering of the few existing securities operations of foreign banks. Fourth, requiring foreign banks to terminate most of their United States securities operations could adversely affect those regional securities exchanges of which foreign bank affiliates are members. Fifth, there is ample precedent in banking legislation, especially Bank Holding Company Act legislation, for permanently grandfathering existing operations which do not conform with changes in the law. It would be inequitable to break with that precedent in the case of foreign banks. Finally, the absence of permanent grandfathering could have unfortunate consequences for the extensive activities of U.S. domestic banks and securities firms operating overseas.

2. Special Review of Foreign Bank Applications

We recommend the elimination of Section 9 of the bill. This section would introduce special Federal screening of applications by foreign banks desiring to establish operations within the United States. More specifically, Section 9 would require: (1) The Secretary of the Treasury to issue

guidelines containing general criteria for the admission of foreign banks; (2) Federal and state bank supervisory authorities to solicit the views of the Secretary of State, the Secretary of the Treasury and the Federal Reserve Board before acting on the applications; and (3) Federal and state banking authorities to disapprove applications unless foreign banks specifically state that they will comply with U.S. anti-discrimination laws which apply to domestically chartered banks.

We oppose the retention of Section 9 for several reasons. First the section would apply only to foreign banks and would establish new criteria over and above those normally applied to both foreign and domestic banks. Second, this country has long followed an open-door policy towards international investment, and establishing a special screening process would conflict with this policy. Third, the special process provides no additional protection to U.S. depositors or to national interests since there are already adequate safeguards in existing law and administrative procedures and in the proposed legislation. Fourth, the creation of special guidelines and review procedures for the banking sector could set an unfortunate precedent for the establishment of similar procedures for investment in other sectors of our economy and could also induce other countries to introduce or expand restrictions on American banking activities and investments abroad. Finally, in so far as the review would apply to the establishment of banking operations which do not involve depository or fiduciary functions, this provision would appear to be contrary to the national treatment provisions of treaties which we have with most of the major banking nations.

3. Application of the Bank Holding Company Act

Section 8(a of the bill applies the Bank Holding Company Act to foreign banks having U.S. branches and agencies. We believe this section should be amended to exempt from Bank Holding Company Act prohibitions those non-bank acquisitions by foreign banks that do not have a significant impact in the United States. In order for an acquisition or activity to have a significant impact, (1) the parent bank would have to exercise control over the non-bank enterprise in the United States and 2) the enterprise would have to have a substantial effect on commerce in the United States or any relevant market thereof.

To illustrate what might occur under the current version of Section 8(a), a foreign parent bank with a New York branch might wish to acquire a manufacturing company in its

home country in full accordance with its own laws. If the foreign manufacturer had an American manufacturing subsidiary, the foreign bank would indirectly acquire the American manufacturing subsidiary when it purchased the foreign firm. As a result, the parent bank would simultaneously engage in the United States in commercial banking and manufacturing. Accordingly, under Section 8(a), the proposed acquisition would be prohibited by the Bank Holding Company Act, unless it qualified for a regulatory exemption under that Act. The exemption process would rest solely on the Federal Reserve Board's discretionary authority with little specific statutory guidance.

We believe that it is desirable to give the Federal Reserve Board greater statutory guidance for two reasons. First, the existing exemption process creates considerable uncertainty for foreign banks concerning which foreign non-banking activities or acquisitions are permissible when they also affect United States commerce. This uncertainty should be reduced as much as possible, while maintaining the broad principles of the Bank Holding Company Act. Second, it is desirable to assure by statute, rather than merely by regulation, that the Bank Holding Company Act does not apply extraterritorially. It is not our intent to prohibit foreign banks located abroad from acquiring or providing assistance to non-bank enterprises abroad. Yet, that could happen under the present version of Section 8(a), subject only to the Federal Reserve Board's discretionary authority.

The statutory guidance incorporated in our proposal is not designed to change the intent of the Bank Holding Company Act as currently implemented by regulations of the Federal Reserve Board. Rather it is designed to assure certain, consistent application of that intent.

4. Mandatory Deposit Insurance

We recommend that Section 6 which requires deposit insurance for U.S. branches of foreign banks be amended (1) to make insurance optional and (2) to offer a form of deposit insurance which will not be unduly burdensome for foreign banks.

The Administration is concerned about two aspects of Section 6. While we believe that deposit insurance is desirable, foreign banks should be given the opportunity to elect coverage as are certain domestic banks. The benefits

of FDIC insurance have been clearly demonstrated, and insurance should prove attractive to foreign banks if its cost is not unduly burdensome. We believe the insurance provisions currently contained in the bill do not meet this standard. If this insurance was made optional, foreign banks would not likely elect coverage, and if made mandatory, it would create an unfair burden on foreign banks. Moreover, it could be interpreted as a departure from national treatment of established banks and thus inconsistent with certain of our treaty obligations.

Our proposed revision of Section 6, in addition to making insurance optional, would increase its attractiveness to foreign banks. Specifically, the FDIC would be given flexibility to narrowly define "domestic deposits" and thereby limit its risk and reduce the cost to foreign banks. It is contemplated that this term would include deposits of individuals who are citizens or residents of the United States and companies having an appropriate business nexus with this country. Further, the FDIC would be empowered to evaluate the additional risks of insuring a foreign bank branch in the U.S. and to adjust accordingly the requirements for any surety bond or pledge of assets.

We believe that with these changes, deposit insurance would be a viable option.

5. Citizenship Requirements

Section 2 would end the current prohibition against foreign citizens serving as directors of national banks. It would permit not more than a minority of the directors of foreign-controlled national banks to be foreign citizens. The Administration welcomes this change as a step in the right direction. Indeed, we would suggest the complete elimination of any citizenship requirement for all national banks, as has been done for Edge Act Corporations in Section 3 of this bill.

Conclusion

In summary, let me reiterate the Administration's belief that this bill is a good vehicle for achieving more equal treatment between foreign and domestic banks in the United States. We favor passage of the International Banking Act of 1976 with the modifications suggested in my testimony today. We will be happy to provide the Subcommittee

with legislative language incorporating those modifications.

Mr. Chairman, that concludes my prepared testimony, and I will be pleased to answer any questions that you may have.

__For release on delivery__

Statement by

Stephen S. Gardner

Vice Chairman, Board of Governors of the Federal Reserve System

before the

Subcommittee on Financial Institutions

of the

Committee on Banking, Housing and Urban Affairs

United States Senate

on H.R. 13876

August 31, 1976

I am pleased to appear before this Committee, on behalf of the Federal Reserve Board, to offer the Board's strong support for the enactment of H.R. 13876, the "International Banking Act of 1976," during this session of Congress.

As the Committee is aware, the Board's legislative recommendations for the regulation of foreign banks in the United States were introduced in the Senate as S. 958. In January, Vice Chairman Mitchell testified before this Committee and submitted a comprehensive statement of the Board's objectives and reasons for recommending the enactment of foreign bank legislation.

In supporting the present bill, I would like to discuss certain differences between H.R. 13876 and S. 958 and suggest some ways that H.R. 13876 might be usefully amended.

In recommending legislation to regulate foreign banks operating in the U.S., the Board has been guided by two basic public policy considerations. The first is the adherence by our Federal Government to the principle of national treatment, or nondiscrimination, towards foreign banks operating in this country. The second is the establishment of a system of Federal supervision, regulation and examination of foreign bank operations that is fairly comparable to the regulation of domestic banks.

There are compelling reasons to accomplish these objectives at this time. Foreign banks have grown from a curiosity in U.S. money centers to an increasingly important part of our financial system. Their activities are diverse. No longer can they be characterized as simply wholesale banks dealing principally in international transactions. Our large and powerful economy, the widespread use of the dollar in international financial and commercial transactions, the growing investment by foreigners in U.S. industries, our huge consumer markets for credit and goods and the exceptional breadth and capacity of our capital markets and securities exchanges--all are powerful inducements to foreign banking institutions to establish operations here. The development of foreign banking in the U.S. has grown at a dramatic rate in the last few years as indicated in the Statistical Appendix to my statement, and that development is continuing apace. Reports for the most recent period available indicate that banking assets of foreign banking institutions here have increased almost 10 per cent in the nine months ending June 30, 1976.

I hope this period of rapid expansion has not been based only on the existing lack of Federal regulation because that abnormality has created certain competitive advantages for foreign banks, the consequences of which are sure to be enlarged in time. The U.S. is practically alone among major industrial nations in having no national oversight of foreign banks within its borders, despite the tradition of careful and extensive regulation that we apply to all domestic depository institutions. This is an incongruous situation.

Further, the lack of Federal legislation establishing a national policy towards foreign bank operations creates the disadvantage of uncertainty for these institutions. A fair and coherent national regulatory structure would permit foreign banks here and those that wish to locate here some assurance of stability in which to plan their operations, both now and in the future. It is apparent that Congress considers Federal banking regulation to be a timely and important subject for review. The best approach would be to incorporate foreign banks into the existing regulatory structure so that any future changes that might be made by the Congress would apply to foreign as well as domestic banks. Delays in placing foreign banks on a similar footing nationally with our domestic institutions can only increase the possibility of future disruptions to their operations in this country.

H.R. 13876 would substantially accomplish both of the goals addressed by the Board in its own foreign bank legislation. First, H.R. 13876 implements the principle of national treatment by amending existing banking laws to provide foreign banks with generally the same opportunities in this country that are available to domestic banks. Further, it would subject them generally to the same rules and regulations that apply to the operations of their large domestic bank competitors. Second, H.R. 13876 provides for a Federal presence in the examination, supervision and regulation of foreign banks by permitting the establishment of Federally-approved agencies and branches and by giving the Board the authority to impose monetary and bank supervisory controls on foreign bank operations.

While the Board supports H.R. 13876, there are differences between it and the Board's bill that I would like to bring to the attention of the Committee. These differences concern (a) interstate banking, (b) deposit insurance, (c) monetary policy controls, (d) grandfathering, and (e) Federal economic policy review of foreign bank operations. We have some suggestions in these areas that we hope will be useful to the Committee in its deliberations.

INTERSTATE BANKING

The interstate branching provisions of both H.R. 13876 and of S. 958 are consistent with the principle of national treatment since under each proposal foreign banks would be given no greater branching rights than comparable domestic banking institutions. The Board believes, however, that it would be preferable to use the formulation suggested in S. 958.

Unlike Section 5 of H.R. 13876, the Board's bill does not subject foreign banks to the interstate branching restrictions of the McFadden Act; rather, it provides in Section 3(g) that a foreign bank would be able to establish a branch or agency outside of its home State only if a State bank organized under the laws of its home State could do so. The McFadden Act is, of course, undergoing a thorough study by this Committee. Adoption of the provision in S. 958 would have the advantage of avoiding any apparent prejudgment of the outcome of that study.

I would also like to note that H.R. 13876 does not apply any interstate restrictions to the establishment of agencies by foreign banks because agencies cannot accept deposits. Under S. 958, agencies are treated the same as branches for purposes of interstate restrictions. At present, the activities of agencies measured in terms of both total assets and loans are greater than the activities of branches, as agencies are the preferred form of entry for many foreign banks. Moreover, though agencies do not accept deposits, their credit balance accounts serve many of the same functions as deposits and agencies perform many other commercial banking activities that are carried on by branches, such as the making of commercial loans. In view of the size and scope of their operations, the Board thus believes that Congress should consider subjecting agencies to the same interstate restrictions that would apply to branches.

DEPOSIT INSURANCE

Section 6 of H.R. 13876 requires a surety deposit or pledge of assets by a foreign bank to protect United States depositors in lieu of FDIC insurance. The Board's earlier recommendation in S. 958 contemplated the extension of FDIC insurance to both branches and agencies of foreign banks. Section 6 of H.R. 13876 was adopted in an attempt to meet objections by the FDIC to the extension of deposit insurance to branches and agencies of foreign banks. Since passage of H.R. 13876,

questions have been raised about the feasibility and effectiveness of this proposal. Surety deposits or pledges of assets could prove significantly more costly to the covered institutions than the FDIC insurance available to domestic banks. Furthermore, such a system may not assure the same degree of protection to small depositors as that afforded by FDIC insurance.

Our system of deposit insurance is more highly developed, more effective, more actuarially sound and more protective of depositors than those existing in other industrialized countries. The Board believes that it would be unwise not to make use of this insurance system which has effectively protected U.S. depositors over some 40 years. It would seem that the FDIC should be able to propose a plan that would provide both comparable Federal insurance for deposits at foreign bank offices and appropriate safeguards limiting the FDIC fund's exposure.

MONETARY POLICY CONTROLS

A major objective of the Board in submitting its proposal to regulate major foreign banks in the United States was to place this increasingly important segment of domestic banking under the same monetary and supervisory controls that apply to comparable U.S. banks. Section 7 of H.R. 13876 would largely accomplish that objective without requiring formal membership in the Federal Reserve System--a solution that is acceptable to the Board. One concern remains, however, as Section 7 would not subject State-chartered subsidiaries of foreign banks to the Board's monetary controls, even though their parent banks may have worldwide assets greater than a billion dollars. The Board believes that large foreign banks entering our markets should be subject to the same disciplines

of the central banking authority that are imposed on comparable domestic banks, no matter which form(s) of organization they may choose for doing business in this country--branch, agency, or subsidiary. By not covering subsidiaries, Section 7 of H.R. 13876 could result in an anomalous situation where part of a foreign bank's operations would be subject to monetary controls and another pert would not--for example, a foreign bank that maintains both a non-member subsidiary bank and branches or agencies.

GRANDFATHERING

Section 8 of H.R. 13876 conforms in large measure to the Board's own proposals by granting permanent grandfathered status from the prohibitions of the Bank Holding Company Act to most non-conforming, nonbanking activities engaged in by foreign banks on or before December 3, 1974 (the original date of introduction of the Board's bill). The exception to this position in Section 8 relates to the activities of securities affiliates of foreign banks.

The Board continues to prefer permanent grandfathering of the securities affiliates of foreign banks in this country as the fairest solution and one that minimizes possible retaliation against U.S. banks abroad. As noted in the House Report on this bill, the securities issue is a difficult one involving the balancing of many sensitive national interests. We have concluded that the potential adverse repercussions of divestiture outweigh any potential benefits, and that ample precedents exist for permanent grandfathering.

FOREIGN ECONOMIC POLICY REVIEW OF FOREIGN BANK APPLICATIONS

In comparing the provisions of Section 9 of H.R. 13876 with Section 25 of S. 958, the principal difference is our recommendation that Federal officials charged with the administration of foreign economic policy be given the right to disapprove the entry of a foreign bank if foreign policy or some similar national interest dictates such action. We do not advocate nor see the necessity for screening or detailed guidelines and policy pronouncements. Bank regulators can administer that chartering responsibility. Rather, we believe that there should be some authority in Government (other than the bank regulatory agencies) that would make a determination on national interest factors based on our relations with particular countries. We therefore note this point for the Committee's consideration.

AMENDMENT REGARDING FOREIGN NONBANK OPERATIONS

Finally, I would like to discuss what I believe is a misconception on the part of some foreign banks about the reach of the nonbanking prohibitions of the Bank Holding Company Act. Apparently, some foreign banks believe that the nonbanking prohibitions of the Bank Holding Company Act would seriously interfere with their foreign nonbanking interests. I would note first that section 2(h) of the Bank Holding Company Act specifically exempts the wholly foreign activities and shareholdings of foreign banks from the nonbanking prohibitions of the Act. Next, I would emphasize that even when a foreign company in which a foreign bank has an equity interest does conduct a part of its business in the

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United States, the Board has used its discretionary authority under section 4(c)(9) of the Act to prevent the nonbanking prohibitions of the Act from unnecessarily interfering with essentially foreign shareholdings. For example, the Board has adopted a regulation that automatically exempts all noncontrolling investments of foreign bank holding companies in foreign nonbanking companies from the prohibitions of the Act, even if such nonbanking companies are directly or indirectly engaged in business in the United States, as long as such foreign companies derive the majority of their business from outside this country.

The Board has refrained from granting exemptions under section 4(c)(9) only in cases where it was clear that the U.S. nonbanking operations involved would give a foreign bank holding company a significant competitive advantage over domestic banking institutions in this country. In this regard, I think it is important to quote a provision of Chairman Burns' previous testimony on this issue before the Senate Banking Committee in 1970:

> ". . .[W]e believe that bank holding companies that are principally engaged in banking abroad should be allowed to retain interests in foreign-chartered nonbanking companies that are also principally engaged in business outside the United States. We do not believe Congress intended the Act to be applied in such a way as to impose our ideas of banking upon other countries. To do so might invite foreign retaliation against our banks operating abroad, to the detriment of the United States. The provisions of the House-passed bill authorizing the Board to grant exemptions in this area would be most useful in dealing with these problems."

The Board would continue to be guided by these principles in its administration of the Bank Holding Company Act vis-a-vis the foreign banks that would be covered by this proposed legislation.

While the Board believes that it has sufficient regulatory authority under section 4(c)(9) to deal with problems that may occur in this area, we also believe that it would be desirable at this time for the Congress to adopt a more well-defined legislative policy. A great number of foreign banks emanating from a great variety of banking environments would become subject to the nonbanking prohibitions of the Bank Holding Company Act as a result of this proposed legislation. The lack of a statutory policy could initially cause some misunderstanding by foreign banks of the Act's effects on foreign companies with U.S. operations and would make more difficult the task of formulating appropriate general regulations.

Therefore, the Board recommends that H.R. 13876 be amended to make clear that the nonbanking prohibitions of the Bank Holding Company Act are not meant to prevent foreign banks principally engaged in banking abroad from retaining or acquiring interests in foreign-chartered nonbanking companies that are also principally engaged in business outside the United States. We do feel, however, that as a corollary to any such amendment, a domestic office of a foreign bank should be required to deal with the domestic operations of a foreign company in which it may have an equity interest on a strictly arms-length basis so as not to give the firm or bank involved an advantage over their respective U.S. competitors. Legislative language incorporating this proposal is suggested in Appendix B to this statement.

Finally, I would like to emphasize the Board's support for the early passage of H.R. 13876.

Through your hearings on S. 958, the House debates on H.R. 13876 and these proceedings today the principal issues have been identified. Indeed, most responsible objections to the legislation can be and have been met through fair and appropriate amendments. The question is should we not put foreign and domestic banks on a relatively equal footing in the United States now, for surely they should be in time. In fact, this legislation is an essential ingredient in the larger process of modernizing our own banking laws. That work will be fairer and I suggest easier if it is evenly applicable to all banks in our country as it would be if H.R. 13876 is enacted.

The conscientious and excellent work of Congress and this Committee should continue until this bill is passed. The Federal Reserve stands ready to assist you in any way necessary.

Thank you.

Appendix A to Statement by

Stephen S. Gardner

Vice Chairman, Board of Governors of the Federal Reserve System

before the

Subcommittee on Financial Institutions

Committee on Banking, Housing and Urban Affairs

United States Senate

Prepared by Staff of the Board of Governors
of the Federal Reserve System

August 31, 1976

Proposed Technical Amendments to H.R. 13876--The International Bank Act of 1976

1. Page 1, line 10 insert "checks are paid, or money is lent" after the word "powers,".

Explanation: The words "checks are paid, or money is lent" were deleted from the definition of "agency" as a result of certain technical amendments adopted during House passage of the bill (see daily ed. Cong. Rec. July 29, 1976 at 7945). It appears from the precise language of the technical amendment adopted by the House of Representatives, that is, deletion of the phrase "and checks are paid or money is lent", that the amendment was intended to apply to the definition of "branch" not "agency" (see discussion infra). Accordingly, it is recommended that the deleted phrase be reinserted.

2. Page 2, lines 7-8, strike the words "and checks are paid or money is lent".

Explanation: In its passage of H.R. 13876, the House of Representatives adopted the following technical amendment without explanation--page 2, line 6 strike the words "and checks are paid or money is lent". The page and line reference was to the definition of "agency"; however, the precise phrase is contained in the definition of "branch". It is believed that the amendment was intended to apply to the definition of "branch" in order to close a potential loophole. Technically, under the existing definition of "branch", if a U.S. office

of a foreign bank accepted deposits but did not also lend money or pay checks, it would not be defined as either a "branch" or "agency". By striking "and checks are paid or money is lent" in the "branch" definition, this potential loophole would be closed and it would be made clear that any office receiving deposits would be defined as a branch. If a foreign bank office did not accept deposits but did lend money or pay checks or maintain credit balances, it would be defined as an "agency" and would not otherwise escape the Act's coverage.

3. Page 4, line 3, insert the following new definition:

"(12) 'consolidated' means consolidated in accordance with generally accepted accounting principles in the United States consistently applied."

__Explanation:__ The definition of "foreign bank" in Section 1(7) of the bill and the amount threshold for imposition of monetary controls on foreign banks in Sections 7(a)(2) and (3) of the bill both rely on a "consolidated" test applied to foreign banks. The recommended amendment would make clear that U.S. accounting principles are to be applied in determining whether a foreign bank meets the tests applied by those sections.

4. Page 12, strike lines 22 through 25 and page 13 strike lines 1 through 13 and insert in lieu thereof the following:

"Sec. 5. (a) Except as provided by subsection (b), (1) no foreign bank may operate a Federal branch outside its home State unless the State is one in which it could operate a branch if it were a national bank located in its home State; (2) no foreign bank may operate a State branch outside its home State unless (A) the State is one in which it could operate a branch if it were a national

bank located in its home State, and (B) the State branch is approved by the regulatory authority of the State in which such branch is to be located; (3) no foreign bank may operate a State agency and no foreign bank or company of which it is a subsidiary may operate a commercial lending company subsidiary outside of its home State unless such State agency or commercial lending company subsidiary is approved by the regulatory authority of the State in which such agency or commercial lending company is to be located; and (4) no foreign bank may acquire any voting shares of, interest in or substantially all of the assets of a bank located outside of its home State unless such acquisition would be permissible under section 3 of the Bank Holding Company Act of 1956 if the foreign bank were a bank holding company the operations of whose banking subsidiaries were principally conducted in the foreign bank's home State."

Explanation: This recommended amendment is merely an attempt to clarify the application of the interstate banking restrictions of Section 5 to the various forms of foreign bank operations in this country; it effects no substantive change in the section. Specifically, it subdivides the section by the specific forms of organization affected--Federal branches, State branches, State agencies and commercial lending companies, and banks. A provision in the existing Section 5(a) indicating that a Federal branch or agency cannot be established outside of a foreign bank's home State if prohibited by State law is eliminated because it serves merely to duplicate Section 4(a) of H.R. 13876. In addition, the language pertaining to a "bank" operated by a foreign bank outside of its home State has been conformed more closely to the language of section 3(d) of the Bank Holding Company Act.

5. Page 14, line 7, pluralize the word "State".

Explanation: The reference to "State" in subsection (3) of section 5(c) is clearly intended to be a reference to "States".

II

Appendix [illegible] to Statement by

Stephen S. Gardner

Vice Chairman, Board of Governors of the Federal Reserve System

before the

Subcommittee on Financial Institutions

Committee on Banking, Housing and Urban Affairs

United States Senate

Prepared by Staff of the Board of Governors
of the Federal Reserve System

August 11, 197[illegible]

Proposed Amendment to H.R. 13876 Regarding Foreign Nonbank Operations of Foreign Banks

Section 8 of H.R. 13876 is amended by adding the following new section (e) after line 24 on page 25.

"(e) Section 2(h) of the Bank Holding Company Act of 1956 is amended by striking the proviso to that section and inserting in lieu thereof the following:

> "Provided, however, That the prohibitions of Section 4 of this Act shall not apply to shares of any company organized under the laws of a foreign country (or to shares of any subsidiary of such company principally engaged in activities incidental to the business of the parent) that is principally engaged in business outside the United States if such shares are held or acquired by a bank holding company organized under the laws of a foreign country that is principally engaged in the banking business outside the United States, except that (1) such a company (A) may engage in the business of underwriting, selling or distributing securities in the United States only to the extent that a bank holding company may do so under this Act and under regulations or orders issued by the Board under this Act and (B) may not engage in the United States in any banking or financial operations or types of activities permitted under section 4(c)(8) of this Act unless it complies with all the conditions specified in section 4(c)(8 or in any order or regulation issued by the Board under such section, and 2) no domestic office or subsidiary of a bank holding company or subsidiary thereof holding shares of such company may extend credit to a domestic office or subsidiary of such company on terms more favorable than those afforded other borrowers in the United States. For purposes of this subsection--) a bank holding company may not in any case be considered to be 'principally engaged in the banking business outside the United States' if its principal banking subsidiary is located in the United States; and (ii) 'domestic' means located in the United States or organized under the laws of the United States or any State thereof."

Explanation: The present section 2(h) of the Bank Holding Company Act provides that the nonbanking prohibitions of the Act "shall not apply to shares of any company organized under the laws of a foreign country that does not do any business in the United States, if such shares are held or acquired by a bank holding company that is principally engaged in the banking business outside the United States." Thus, under the current section, a foreign nonbanking company held or acquired by a foreign bank is only eligible for a statutory exemption from the Act's nonbanking prohibitions if it does no business in the United States. This provision thus does little more than recognize the inherent territorial restrictions of the Act.

The proposed amendment would amend section 2(h) of the Act to give foreign bank holding companies principally engaged in banking abroad a statutory exemption under which they could retain and acquire interests in foreign-chartered nonbanking companies that are principally engaged in business outside the United States, even if they have U.S. operations. This would exempt both controlling and minority interests in such companies.

Three important exceptions, however, are made to the exemption. First, no company may qualify for the exemption if it conducts a U.S. securities business that would not be permissible for a domestic bank holding company; this serves to prevent this exemption from being used as a way to avoid Glass-Steagall prohibitions. Secondly, no foreign bank

holding company may use this exemption as a means of evading the requirements of § 4(c)(8) of the Act. For example, if a foreign bank owns a foreign leasing company that company may only establish or retain offices in the United States to conduct leasing operations in accordance with the same limitations and procedures that apply to domestic bank holding companies under § 4(c)(8) of the Act and the Board's Regulation Y. Thirdly, it is provided that no domestic office or subsidiary of a foreign bank or subsidiary thereof may extend credit to a domestic office or subsidiary of a foreign nonbanking company qualifying for the exemption on terms more favorable than those afforded other borrowers in the United States. This condition is imposed so as not to give the foreign bank or nonbank firms involved an advantage over their respective U.S. competitors.

In addition, appropriate governing definitions have been proposed in the amendment. For example, in order for a foreign bank holding company to be "principally engaged in the banking business outside the United States" and thus eligible to use the exemption, it is provided that its principal banking subsidiary cannot be located in the United States. This latter definition prevents large U.S. banking organizations from ever being able to use the exemption.

The general purpose of the proposed amendment is to make clear that the Bank Holding Company Act and H.R. 13876 are not meant to apply our ideas of banking to foreign bank operations that derive from and

have their primary effects in countries outside the U.S. Since the companies exempted must be principally engaged in business outside the United States and since the foreign bank must be principally engaged in business outside the United States, it is not anticipated that the amendment would have significant effects on the concentration of domestic resources or give foreign banks or their nonbank affiliates significant competitive advantages. The proposed amendment would also be consistent with the U.S. approach of encouraging foreign investment in this country; lack of a statutory exemption may discourage major foreign nonbanking companies from establishing facilities in the U.S. because of a foreign bank shareholder. Finally, the proposed amendment should lessen the possibility of any retaliatory measures being taken abroad against U.S. banks.

Statistical Appendix to Statement by

Stephen S. Gardner

Vice Chairman, Board of Governors of the Federal Reserve System

before the

Subcommittee on Financial Institutions

Committee on Banking, Housing and Urban Affairs

United States Senate

Prepared by Staff of the Board of Governors
of the Federal Reserve System

August 31, 1976

Table 1a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	24,317	13,635	5,302	4,064	1,316
ASSETS OF "STANDARD" BANKING BUSINESS	18,073	9,959	3,283	3,747	1,084
LOANS AND CREDITS	11,286	6,979	1,485	2,106	717
COMMERCIAL AND INDUSTRIAL	10,507	6,942	1,374	1,495	696
(U.S.)	(8,275)	(5,533)	(898)	(1,336)	(508)
(FOREIGN)	(2,232)	(1,410)	(476)	(158)	(188)
MISC. U.S. LOANS INCLUDING RETAIL	779	36	111	611	21
MONEY-MARKET ASSETS	5,753	2,714	1,558	1,253	229
INTERBANK LOANS AND DEPOSITS	2,949	1,480	1,219	170	81
(U.S.)	(2,383)	(1,254)	(945)	(138)	(46)
(FOREIGN)	(567)	(227)	(273)	(32)	(34)
LOANS TO SECURITY DEALERS	1,183	789	194	105	95
U.S. GOVT. AND AGENCY SECURITIES	1,620	445	146	978	53
MISCELLANEOUS ASSETS	1,034	267	241	388	138
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	6,244	3,676	2,019	318	232
CLEARING BALANCES DUE FROM OTHERS	1,968	702	809	283	175
DUE FROM U.S. BANKING AFFILIATES	1,762	1,362	388	7	5
DUE FROM FOREIGN PARENT & AFFILIATES	2,515	1,612	823	28	53

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 1b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	24,317	13,635	5,302	4,064	1,316
LIABILITIES OF "STANDARD" BANKING BUSINESS	10,606	3,875	2,729	3,173	828
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	6,156	794	2,024	2,884	454
DEMAND DEPOSITS AND CREDIT BALANCES	1,835	320	460	946	108
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	4,321	473	1,564	1,939	345
(DEPOSITS OF U.S. RESIDENTS)	(4,196)	(420)	(1,186)	(2,499)	(92)
(DEPOSITS OF FOREIGNERS)	(1,960)	(374)	(838)	(386)	(362)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	2,635	1,924	339	123	248
U.S. BANKS	2,241	1,803	313	92	33
FOREIGN BANKS	394	121	26	32	215
MISCELLANEOUS LIABILITIES	1,816	1,158	366	166	126
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	13,053	9,669	2,528	475	380
CLEARING BALANCES DUE TO OTHERS	1,544	786	422	176	160
DUE TO U.S. BANKING AFFILIATES	1,971	1,616	138	212	5
DUE TO FOREIGN PARENT AND AFFILIATES	9,537	7,268	1,968	87	214
CAPITAL ACCOUNTS AND RESERVES	658	90	45	416	108
NUMBER OF REPORTING INSTITUTIONS	104	50	26	25	3

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 2a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	66,218	29,600	21,519	13,646	1,454
ASSETS OF "STANDARD" BANKING BUSINESS	45,278	17,931	14,387	11,778	1,182
LOANS AND CREDITS	25,662	12,303	6,211	6,577	572
COMMERCIAL AND INDUSTRIAL	22,852	12,174	5,996	4,121	562
(U.S.)	(17,038)	(9,668)	(3,461)	(3,516)	(393)
(FOREIGN)	(5,814)	(2,506)	(2,535)	(604)	(169)
MISC. U.S. LOANS INCLUDING RETAIL	2,810	129	215	2,456	11
MONEY-MARKET ASSETS	16,123	4,668	7,438	3,585	432
INTERBANK LOANS AND DEPOSITS	11,797	3,524	6,767	1,238	268
(U.S.)	(7,711)	(2,482)	(4,060)	(1,080)	(90)
(FOREIGN)	(4,086)	(1,042)	(2,707)	(158)	(178)
LOANS TO SECURITY DEALERS	804	434	217	152	0
U.S. GOVT. AND AGENCY SECURITIES	3,522	710	454	2,195	163
MISCELLANEOUS ASSETS	3,493	960	738	1,617	178
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	20,940	11,670	7,132	1,867	272
CLEARING BALANCES DUE FROM OTHERS	6,357	1,689	2,987	1,517	164
DUE FROM U.S. BANKING AFFILIATES	5,792	4,877	770	79	65
DUE FROM FOREIGN PARENT & AFFILIATES	8,792	5,103	3,375	271	42

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 2b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	66,218	29,600	21,519	13,646	1,454
LIABILITIES OF "STANDARD" BANKING BUSINESS	36,905	13,339	11,353	11,404	809
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	20,545	2,297	7,644	10,077	527
DEMAND DEPOSITS AND CREDIT BALANCES	5,653	772	1,219	3,486	176
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	14,892	1,525	6,426	6,591	350
(DEPOSITS OF U.S. RESIDENTS)	(13,303)	(907)	(3,144)	(9,176)	(76)
(DEPOSITS OF FOREIGNERS)	(7,242)	(1,390)	(4,500)	(901)	(450)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	12,242	8,461	3,080	631	70
U.S. BANKS	11,346	8,374	2,381	532	58
FOREIGN BANKS	896	87	699	99	12
MISCELLANEOUS LIABILITIES	4,118	2,581	629	696	213
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	27,361	15,950	10,003	919	488
CLEARING BALANCES DUE TO OTHERS	4,764	2,470	1,494	497	303
DUE TO U.S. BANKING AFFILIATES	6,136	3,503	2,371	251	11
DUE TO FOREIGN PARENT AND AFFILIATES	16,462	9,977	6,139	172	175
CAPITAL ACCOUNTS AND RESERVES	1,952	311	162	1,323	156
NUMBER OF REPORTING INSTITUTIONS	193	87	68	34	4

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 3a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN ------------NEW YORK
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	17,882	10,019	4,412	2,136	1,316
ASSETS OF "STANDARD" BANKING BUSINESS	14,067	8,060	2,990	1,933	1,084
LOANS AND CREDITS	8,200	5,328	1,234	922	717
COMMERCIAL AND INDUSTRIAL	8,002	5,296	1,195	814	696
(U.S.)	(6,052)	(4,063)	(719)	(762)	(508)
(FOREIGN)	(1,949)	(1,233)	(476)	(52)	(188)
MISC. U.S. LOANS INCLUDING RETAIL	199	32	39	107	21
MONEY-MARKET ASSETS	4,976	2,502	1,531	715	229
INTERBANK LOANS AND DEPOSITS	2,658	1,282	1,195	100	81
(U.S.)	(2,242)	(1,181)	(945)	(70)	(46)
(FOREIGN)	(416)	(101)	(250)	(31)	(34)
LOANS TO SECURITY DEALERS	1,175	789	192	98	95
U.S. GOVT. AND AGENCY SECURITIES	1,142	431	143	517	53
MISCELLANEOUS ASSETS	891	230	226	296	138
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	3,815	1,959	1,422	202	232
CLEARING BALANCES DUE FROM OTHERS	1,822	678	785	184	175
DUE FROM U.S. BANKING AFFILIATES	114	85	23	2	5
DUE FROM FOREIGN PARENT & AFFILIATES	1,879	1,195	615	17	53

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 3b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN -------------NEW YORK
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	17,882	10,019	4,412	2,136	1,316
LIABILITIES OF "STANDARD" BANKING BUSINESS	6,390	1,908	2,053	1,601	828
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	3,793	522	1,404	1,414	454
DEMAND DEPOSITS AND CREDIT BALANCES	1,316	301	379	527	108
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	2,477	221	1,024	887	345
(DEPOSITS OF U.S. RESIDENTS)	(2,102)	(352)	(600)	(1,058)	(92)
(DEPOSITS OF FOREIGNERS)	(1,692)	(170)	(803)	(356)	(362)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	1,226	572	313	94	248
U.S. BANKS	968	571	287	77	33
FOREIGN BANKS	258	0	26	17	215
MISCELLANEOUS LIABILITIES	1,370	814	337	93	126
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	11,044	8,047	2,323	294	380
CLEARING BALANCES DUE TO OTHERS	1,479	776	405	137	160
DUE TO U.S. BANKING AFFILIATES	810	690	13	101	5
DUE TO FOREIGN PARENT AND AFFILIATES	8,755	6,581	1,905	56	214
CAPITAL ACCOUNTS AND RESERVES	448	63	37	240	108
NUMBER OF REPORTING INSTITUTIONS	63	26	20	14	3

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 4a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN -------------NEW YORK
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	43,793	17,898	17,050	7,392	1,454
ASSETS OF "STANDARD" BANKING BUSINESS	31,917	12,559	11,982	6,194	1,182
LOANS AND CREDITS	16,273	8,168	4,502	3,031	572
COMMERCIAL AND INDUSTRIAL	15,467	8,046	4,421	2,439	562
(U.S.)	(10,986)	(6,098)	(2,452)	(2,044)	(393)
(FOREIGN)	(4,481)	(1,949)	(1,969)	(395)	(169)
MISC. U.S. LOANS INCLUDING RETAIL	806	121	81	592	11
MONEY-MARKET ASSETS	13,116	3,830	6,834	2,021	432
INTERBANK LOANS AND DEPOSITS	9,909	2,730	6,213	698	268
(U.S.)	(6,160)	(1,863)	(3,599)	(608)	(90)
(FOREIGN)	(3,749)	(867)	(2,614)	(90)	(178)
LOANS TO SECURITY DEALERS	776	431	216	128	0
U.S. GOVT. AND AGENCY SECURITIES	2,431	668	404	1,195	163
MISCELLANEOUS ASSETS	2,528	561	647	1,142	178
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	11,875	5,339	5,067	1,198	272
CLEARING BALANCES DUE FROM OTHERS	5,435	1,575	2,758	938	164
DUE FROM U.S. BANKING AFFILIATES	651	106	427	52	65
DUE FROM FOREIGN PARENT & AFFILIATES	5,790	3,658	1,883	207	42

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 4b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN -------------NEW YORK
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	43,793	17,898	17,050	7,392	1,454
LIABILITIES OF "STANDARD" BANKING BUSINESS	21,935	5,576	9,571	5,978	809
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	13,518	1,331	6,492	5,168	527
DEMAND DEPOSITS AND CREDIT BALANCES	3,654	722	1,036	1,719	176
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	9,865	610	5,456	3,449	350
(DEPOSITS OF U.S. RESIDENTS)	(7,210)	(554)	(2,166)	(4,413)	(76)
(DEPOSITS OF FOREIGNERS)	(6,308)	(777)	(4,326)	(755)	(450)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	5,500	2,491	2,549	391	70
U.S. BANKS	4,756	2,491	1,903	304	58
FOREIGN BANKS	745	0	646	87	12
MISCELLANEOUS LIABILITIES	2,917	1,754	530	420	213
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PAREN AND AFF LIATES	20,566	12,126	7,357	594	488
CLEARING BALANCES DUE TO OTHERS	4,548	2,434	1,467	343	303
DUE TO U.S. BANK NG AFFI IATES	2,210	1,663	373	164	11
DUE TO FOREIGN PARENT AND AFFILIATES	13,808	8,029	5,517	87	175
CAPITAL ACCOUNTS AND RESERVES	1,292	195	121	820	156
NUMBER OF REPORTING INSTITUTIONS	94	40	33	17	4

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 5a

U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN -----------CALIFORNIA
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	5,511	3,616	0	1,895	0
ASSETS OF "STANDARD" BANKING BUSINESS	3,679	1,899	0	1,780	0
LOANS AND CREDITS	2,810	1,651	0	1,159	0
COMMERCIAL AND INDUSTRIAL	2,303	1,646	0	656	0
(U.S.)	(2,020)	(1,469)	(0)	(551)	(0)
(FOREIGN)	(282)	(177)	(0)	(106)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	507	5	0	503	0
MONEY-MARKET ASSETS	742	212	0	529	0
INTERBANK LOANS AND DEPOSITS	262	198	0	64	0
(U.S.)	(134)	(72)	(0)	(62)	(0)
(FOREIGN)	(128)	(126)	(0)	(2)	(0)
LOANS TO SECURITY DEALERS	7	0	0	7	0
U.S. GOVT. AND AGENCY SECURITIES	473	14	0	459	0
MISCELLANEOUS ASSETS	128	36	0	91	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,832	1,717	0	115	0
CLEARING BALANCES DUE FROM OTHERS	121	23	0	98	0
DUE FROM U.S. BANKING AFFILIATES	1,282	1,277	0	6	0
DUE FROM FOREIGN PARENT & AFFILIATES	428	417	0	11	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 5b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN -----------CALIFORNIA
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	5,511	3,616	0	1,895	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	3,525	1,968	0	1,558	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	1,736	271	0	1,465	0
DEMAND DEPOSITS AND CREDIT BALANCES	434	19	0	416	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	1,302	252	0	1,050	0
(DEPOSITS OF U.S. RESIDENTS)	(1,503)	(68)	(0)	(1,435)	(0)
(DEPOSITS OF FOREIGNERS)	(233)	(204)	(0)	(30)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	1,381	1,352	0	29	0
U.S. BANKS	1,246	1,232	0	14	0
FOREIGN BANKS	136	121	0	15	0
MISCELLANEOUS LIABILITIES	408	344	0	63	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,788	1,622	0	166	0
CLEARING BALANCES DUE TO OTHERS	47	9	0	38	0
DUE TO U.S. BANKING AFFILIATES	1,034	925	0	108	0
DUE TO FOREIGN PARENT AND AFFILIATES	707	687	0	19	0
CAPITAL ACCOUNTS AND RESERVES	198	27	0	171	0
NUMBER OF REPORTING INSTITUTIONS	34	24	0	10	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 6a
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN ----------CALIFORNIA
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	17,695	11,698	0	5,997	0
ASSETS OF "STANDARD" BANKING BUSINESS	10,718	5,370	0	5,348	0
LOANS AND CREDITS	7,558	4,135	0	3,423	0
COMMERCIAL AND INDUSTRIAL	5,695	4,128	0	1,568	0
(U.S.)	(4,960)	(3,570)	(0)	(1,391)	(0)
(FOREIGN)	(735)	(550)	(0)	(177)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	1,862	7	0	1,855	0
MONEY-MARKET ASSETS	2,300	836	0	1,464	0
INTERBANK LOANS AND DEPOSITS	1,251	792	0	459	0
(U.S.)	(1,018)	(616)	(0)	(402)	(0)
(FOREIGN)	(233)	(176)	(0)	(57)	(0)
LOANS TO SECURITY DEALERS	26	3	0	23	0
U.S. GOVT. AND AGENCY SECURITIES	1,023	42	0	981	0
MISCELLANEOUS ASSETS	860	399	0	462	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	6,977	6,328	0	649	0
CLEARING BALANCES DUE FROM OTHERS	673	113	0	560	0
DUE FROM U.S. BANKING AFFILIATES	4,798	4,772	0	27	0
DUE FROM FOREIGN PARENT & AFFILIATES	1,506	1,443	0	63	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 6b
U.S. BANKING INSTITUTIONS OWNED BY FOREIGN BANKS
LOCATED IN -----------CALIFORNIA
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	17,695	11,698	0	5,997	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	12,979	7,761	0	5,218	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	5,725	966	0	4,759	0
DEMAND DEPOSITS AND CREDIT BALANCES	1,785	50	0	1,735	0
ME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	3,940	915	0	3,024	0
(DEPOSITS OF U.S. RESIDENTS)	(5,024)	(353)	(0)	(4,671)	(0)
(DEPOSITS OF FOREIGNERS)	(701)	(613)	(0)	(89)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	6,165	5,969	0	196	0
U.S. BANKS	6,067	5,882	0	185	0
FOREIGN BANKS	99	87	0	12	0
MISCELLANEOUS LIABILITIES	1,088	826	0	262	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	4,119	3,822	0	297	0
CLEARING BALANCES DUE TO OTHERS	181	36	0	146	0
DUE TO U.S. BANKING AFFILIATES	1,924	1,840	0	84	0
DUE TO FOREIGN PARENT AND AFFILIATES	2,013	1,945	0	68	0
CAPITAL ACCOUNTS AND RESERVES	598	116	0	482	0
NUMBER OF REPORTING INSTITUTIONS	61	46	0	15	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 7a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN ---------------JAPAN
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	10,968	8,766	190	2,012	0
ASSETS OF "STANDARD" BANKING BUSINESS	8,814	6,857	43	1,914	0
LOANS AND CREDITS	7,080	5,834	19	1,227	0
COMMERCIAL AND INDUSTRIAL	6,741	5,834	19	888	0
(U.S.)	(5,397)	(4,612)	(19)	(767)	(0)
(FOREIGN)	(1,343)	(1,222)	(0)	(121)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	339	0	0	339	0
MONEY-MARKET ASSETS	1,506	873	24	609	0
INTERBANK LOANS AND DEPOSITS	744	661	23	60	0
(U.S.)	(668)	(609)	(0)	(60)	(0)
(FOREIGN)	(76)	(52)	(23)	(1)	(0)
LOANS TO SECURITY DEALERS	20	20	C	0	0
U.S. GOVT. AND AGENCY SECURITIES	741	192	1	548	0
MISCELLANEOUS ASSETS	228	150	0	78	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	2,154	1,909	147	98	0
CLEARING BALANCES DUE FROM OTHERS	440	343	2	94	0
DUE FROM U.S. BANKING AFFILIATES	1,451	1,325	124	1	0
DUE FROM FOREIGN PARENT & AFFILIATES	264	241	21	3	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 7b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN ---------------JAPAN
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	10,968	8,766	190	2,012	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	4,691	3,044	58	1,589	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	1,904	387	40	1,477	0
DEMAND DEPOSITS AND CREDIT BALANCES	556	130	7	419	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	1,348	257	33	1,058	0
(DEPOSITS OF U.S. RESIDENTS)	(1,762)	(365)	(39)	(1,358)	(0)
(DEPOSITS OF FOREIGNERS)	(142)	(21)	(1)	(119)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	1,700	1,659	8	33	0
U.S. BANKS	1,685	1,659	8	18	0
FOREIGN BANKS	15	0	0	15	0
MISCELLANEOUS LIABILITIES	1,088	998	10	80	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	6,042	5,665	127	250	0
CLEARING BALANCES DUE TO OTHERS	389	362	0	27	0
DUE TO U.S. BANKING AFFILIATES	1,647	1,318	125	205	0
DUE TO FOREIGN PARENT AND AFFILIATES	4,006	3,986	2	19	0
CAPITAL ACCOUNTS AND RESERVES	235	57	5	173	0
NUMBER OF REPORTING INSTITUTIONS	28	21	1	6	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 8a

U.S. BANKING INSTITUTIONS OWNED BY BANKS IN ---------------JAPAN
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	25,894	17,890	2,637	5,367	0
ASSETS OF "STANDARD" BANKING BUSINESS	17,532	11,654	1,149	4,729	0
LOANS AND CREDITS	13,315	9,699	867	2,749	0
COMMERCIAL AND INDUSTRIAL	12,351	9,699	867	1,785	0
(U.S.)	(9,938)	(7,907)	(456)	(1,575)	(0)
(FOREIGN)	(2,413)	(1,792)	(411)	(211)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	964	0	0	963	0
MONEY-MARKET ASSETS	3,470	1,600	267	1,602	0
INTERBANK LOANS AND DEPOSITS	1,990	1,130	258	603	0
(U.S.)	(1,740)	(901)	(255)	(584)	(0)
(FOREIGN)	(250)	(229)	(3)	(19)	(0)
LOANS TO SECURITY DEALERS	35	18	1	16	0
U.S. GOVT. AND AGENCY SECURITIES	1,445	453	9	983	0
MISCELLANEOUS ASSETS	748	355	15	377	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	8,362	6,236	1,487	639	0
CLEARING BALANCES DUE FROM OTHERS	1,380	802	47	531	0
DUE FROM U.S. BANKING AFFILIATES	4,732	4,579	130	23	0
DUE FROM FOREIGN PARENT & AFFILIATES	2,250	855	1,311	85	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 8b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN ---------------JAPAN
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	25,894	17,890	2,637	5,367	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	14,522	9,282	800	4,519	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	5,899	1,220	570	4,109	0
DEMAND DEPOSITS AND CREDIT BALANCES	1,913	404	47	1,461	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	3,986	815	523	2,648	0
(DEPOSITS OF U.S. RESIDENTS)	(5,085)	(761)	(486)	(3,838)	(0)
(DEPOSITS OF FOREIGNERS)	(814)	(459)	(84)	(272)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	6,233	5,855	183	196	0
U.S. BANKS	6,224	5,855	182	188	0
FOREIGN BANKS	9	0	1	8	0
MISCELLANEOUS LIABILITIES	2,390	2,128	48	214	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	10,638	8,468	1,809	360	0
CLEARING BALANCES DUE TO OTHERS	987	862	12	112	0
DUE TO U.S. BANKING AFFILIATES	5,021	3,272	1,541	208	0
DUE TO FOREIGN PARENT AND AFFILIATES	4,630	4,334	255	41	0
CAPITAL ACCOUNTS AND RESERVES	735	220	27	488	0
NUMBER OF REPORTING INSTITUTIONS	48	31	7	10	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 9a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --------------CANADA
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	5,033	4,083	567	382	0
ASSETS OF "STANDARD" BANKING BUSINESS	3,200	2,617	244	339	0
LOANS AND CREDITS	1,317	940	227	150	0
COMMERCIAL AND INDUSTRIAL	1,131	906	156	70	0
(U.S.)	(996)	(772)	(155)	(68)	(0)
(FOREIGN)	(135)	(134)	(0)	(2)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	186	34	71	81	0
MONEY-MARKET ASSETS	1,720	1,586	3	131	0
INTERBANK LOANS AND DEPOSITS	626	607	0	19	0
(U.S.)	(563)	(544)	(0)	(18)	(0)
(FOREIGN)	(64)	(63)	(0)	(1)	(0)
LOANS TO SECURITY DEALERS	783	768	1	14	0
U.S. GOVT. AND AGENCY SECURITIES	311	211	2	98	0
MISCELLANEOUS ASSETS	163	91	14	57	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,833	1,467	323	43	0
CLEARING BALANCES DUE FROM OTHERS	368	314	21	33	0
DUE FROM U.S. BANKING AFFILIATES	280	36	240	4	0
DUE FROM FOREIGN PARENT & AFFILIATES	1,185	1,117	62	6	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 9b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN -------------CANADA
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	5,033	4,083	567	382	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	1,140	354	486	301	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	931	200	449	283	0
DEMAND DEPOSITS AND CREDIT BALANCES	338	129	72	137	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	593	70	377	146	0
(DEPOSITS OF U.S. RESIDENTS)	(667)	(49)	(416)	(202)	(0)
(DEPOSITS OF FOREIGNERS)	(264)	(151)	(33)	(80)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	108	88	19	1	0
U.S. BANKS	107	88	19	1	0
FOREIGN BANKS	1	0	0	1	0
MISCELLANEOUS LIABILITIES	101	66	18	17	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	3,820	3,720	79	21	0
CLEARING BALANCES DUE TO OTHERS	392	367	17	8	0
DUE TO U.S. BANKING AFFILIATES	284	284	0	1	0
DUE TO FOREIGN PARENT AND AFFILIATES	3,143	3,069	62	12	0
CAPITAL ACCOUNTS AND RESERVES	73	10	3	60	0
NUMBER OF REPORTING INSTITUTIONS	21	9	4	8	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 10a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN -------------CANADA
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	9,223	7,949	682	592	0
ASSETS OF "STANDARD" BANKING BUSINESS	5,022	4,008	490	523	0
LOANS AND CREDITS	2,692	1,939	449	305	0
COMMERCIAL AND INDUSTRIAL	2,300	1,813	323	164	0
(U.S.)	(1,715)	(1,342)	(222)	(152)	(0)
(FOREIGN)	(585)	(472)	(101)	(12)	(0)
MISC. U.S. LOANS INCLUDING RETAIL	392	126	126	141	0
MONEY-MARKET ASSETS	1,971	1,810	9	152	0
INTERBANK LOANS AND DEPOSITS	1,425	1,382	4	39	0
(U.S.)	(815)	(773)	(3)	(38)	(0)
(FOREIGN)	(610)	(609)	(0)	(1)	(0)
LOANS TO SECURITY DEALERS	415	404	1	10	0
U.S. GOVT. AND AGENCY SECURITIES	131	24	4	102	0
MISCELLANEOUS ASSETS	359	260	32	66	0
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	4,201	3,941	192	69	0
CLEARING BALANCES DUE FROM OTHERS	700	621	23	56	0
DUE FROM U.S. BANKING AFFILIATES	139	56	77	5	0
DUE FROM FOREIGN PARENT & AFFILIATES	3,362	3,263	91	8	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

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Table 10b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --------------CANADA
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	9,223	7,949	682	592	0
LIABILITIES OF "STANDARD" BANKING BUSINESS	2,804	1,831	528	445	0
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	1,200	343	435	422	0
DEMAND DEPOSITS AND CREDIT BALANCES	485	201	99	185	0
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	715	142	336	237	0
(DEPOSITS OF U.S. RESIDENTS)	(801)	(101)	(370)	(330)	(0)
(DEPOSITS OF FOREIGNERS)	(399)	(242)	(65)	(92)	(0)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	1,240	1,184	55	0	0
U.S. BANKS	1,205	1,184	21	0	0
FOREIGN BANKS	34	0	34	0	0
MISCELLANEOUS LIABILITIES	365	304	38	23	0
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	6,299	6,092	144	63	0
CLEARING BALANCES DUE TO OTHERS	1,256	1,230	14	12	0
DUE TO U.S. BANKING AFFILIATES	134	81	33	20	0
DUE TO FOREIGN PARENT AND AFFILIATES	4,910	4,782	97	31	0
CAPITAL ACCOUNTS AND RESERVES	120	27	10	84	0
NUMBER OF REPORTING INSTITUTIONS	25	11	6	8	0

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 11a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --THE UNITED KINGDOM
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	2,031	153	1,201	437	239
ASSETS OF "STANDARD" BANKING BUSINESS	1,458	106	761	374	216
LOANS AND CREDITS	760	40	372	213	135
COMMERCIAL AND INDUSTRIAL	625	40	350	112	123
(U.S.)	(413)	(30)	(182)	(108)	(93)
(FOREIGN)	(211)	(9)	(168)	(4)	(30)
MISC. U.S. LOANS INCLUDING RETAIL	135	1	22	101	12
MONEY-MARKET ASSETS	578	61	341	124	53
INTERBANK LOANS AND DEPOSITS	323	52	204	29	38
(U.S.)	(241)	(37)	(162)	(20)	(21)
(FOREIGN)	(82)	(14)	(42)	(9)	(17)
LOANS TO SECURITY DEALERS	106	0	101	4	1
U.S. GOVT. AND AGENCY SECURITIES	150	9	36	91	14
MISCELLANEOUS ASSETS	119	6	48	37	28
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	573	47	440	63	23
CLEARING BALANCES DUE FROM OTHERS	325	8	242	58	17
DUE FROM U.S. BANKING AFFILIATES	20	0	15	2	3
DUE FROM FOREIGN PARENT & AFFILIATES	228	39	183	3	2

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 11b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --THE UNITED KINGDOM
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	2,031	153	1,201	437	239
LIABILITIES OF "STANDARD" BANKING BUSINESS	1,082	71	504	341	165
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	846	7	415	306	118
DEMAND DEPOSITS AND CREDIT BALANCES	301	7	106	147	41
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	545	0	309	159	77
(DEPOSITS OF U.S. RESIDENTS)	(563)	(3)	(268)	(271)	(20)
(DEPOSITS OF FOREIGNERS)	(283)	(4)	(147)	(34)	(98)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	95	16	53	19	7
U.S. BANKS	69	11	53	3	1
FOREIGN BANKS	27	5	0	16	5
MISCELLANEOUS LIABILITIES	140	47	36	17	40
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	870	80	690	52	48
CLEARING BALANCES DUE TO OTHERS	313	40	190	41	42
DUE TO U.S. BANKING AFFILIATES	15	2	6	7	0
DUE TO FOREIGN PARENT AND AFFILIATES	541	37	494	5	6
CAPITAL ACCOUNTS AND RESERVES	79	3	7	44	26
NUMBER OF REPORTING INSTITUTIONS	15	5	5	4	1

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

					94
				227	39
			110	162	110
	1,350	167	882	92	209
DUE FROM OTHERS	598	5	354	81	157
U.S. BANKING AFFILIATES	11	0	9	0	2
DUE FROM FOREIGN PARENT & AFFILIATES	741	162	519	11	50

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

*-INCLUDES FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, SPAIN, SWITZERLAND, AND THE EURO-AMERICAN GROUP.

Table 12b

U.S. BANKING INSTITUTIONS OWNED BY BANKS IN --THE UNITED KINGDOM
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	6,488	424	3,105	2,700	259
LIABILITIES OF "STANDARD" BANKING BUSINESS	4,360	224	1,615	2,352	169
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	3,381	0	1,130	2,123	128
DEMAND DEPOSITS AND CREDIT BALANCES	1,174	0	362	766	47
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	2,207	0	768	1,357	81
(DEPOSITS OF U.S. RESIDENTS)	(2,506)	(0)	(438)	(2,052)	(16)
(DEPOSITS OF FOREIGNERS)	(875)	(0)	(693)	(71)	(111)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	625	201	349	74	1
U.S. BANKS	617	201	348	67	1
FOREIGN BANKS	8	0	0	7	0
MISCELLANEOUS LIABILITIES	354	23	136	155	40
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,857	194	1,463	140	60
CLEARING BALANCES DUE TO OTHERS	757	128	473	111	44
DUE TO U.S. BANKING AFFILIATES	316	6	290	20	0
DUE TO FOREIGN PARENT AND AFFILIATES	785	59	700	10	15
CAPITAL ACCOUNTS AND RESERVES	271	7	27	207	30
NUMBER OF REPORTING INSTITUTIONS	22	4	12	5	1

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

Table 13a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN CONTINENTAL EUOPRE *
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	5,069	312	2,614	1,066	1,077
ASSETS OF "STANDARD" BANKING BUSINESS	3,718	145	1,732	974	867
LOANS AND CREDITS	1,688	37	598	471	582
COMMERCIAL AND INDUSTRIAL	1,591	37	590	392	573
(U.S.)	(1,184)	(26)	(379)	(364)	(415)
(FOREIGN)	(407)	(11)	(211)	(27)	(158)
MISC. U.S. LOANS INCLUDING RETAIL	97	0	9	80	9
MONEY-MARKET ASSETS	1,646	105	1,024	341	175
INTERBANK LOANS AND DEPOSITS	1,069	103	865	58	43
(U.S.)	(766)	(15)	(691)	(36)	(25)
(FOREIGN)	(303)	(88)	(175)	(22)	(18)
LOANS TO SECURITY DEALERS	233	0	82	56	94
U.S. GOVT. AND AGENCY SECURITIES	344	3	76	227	39
MISCELLANEOUS ASSETS	384	3	110	162	110
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	1,350	167	882	92	209
CLEARING BALANCES DUE FROM OTHERS	598	5	354	81	157
DUE FROM U.S. BANKING AFFILIATES	11	0	9	0	2
DUE FROM FOREIGN PARENT & AFFILIATES	741	162	519	11	50

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

*-INCLUDES FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, SPAIN, SWITZERLAND, AND THE EURO-AMERICAN GROUP.

Table 13b

U.S. BANKING INSTITUTIONS OWNED BY BANKS IN CONTINENTAL EUOPRE *
FOR MONTHLY REPORT DATE IN -NOVEMBER 1972
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS			AGENCIES			BRANCHES			COMMERCIAL BANKS			INVESTMENT COS.		
TOTAL LIABILITIES AND EQUITY	5,069			312			2,614			1,066			1,077		
LIABILITIES OF "STANDARD" BANKING BUSINESS	2,833			258			1,093			819			663		
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS		1,991			131			817			707			336	
DEMAND DEPOSITS AND CREDIT BALANCES			431			1			156			206			68
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS			1,560			130			661			501			268
(DEPOSITS OF U.S. RESIDENTS)			(1,069)			(0)			(400)			(597)			(72)
(DEPOSITS OF FOREIGNERS)			(922)			(131)			(417)			(110)			(264
MONEY-MARKET LIABILITIES															
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES		638			120			216			61			241	
U.S. BANKS			291			5			194			61			32
FOREIGN BANKS			347			116			22			0			210
MISCELLANEOUS LIABILITIES		203			6			60			52			86	
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	2,015			49			1,512			122			332		
CLEARING BALANCES DUE TO OTHERS		345			4			143			79			118	
DUE TO U.S. BANKING AFFILIATES		19			9			4			0			5	
DUE TO FOREIGN PARENT AND AFFILIATES		1,651			36			1,365			43			208	
CAPITAL ACCOUNTS AND RESERVES	221			6			9			124			82		
NUMBER OF REPORTING INSTITUTIONS	21			6			8			5			2		

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

* INCLUDES FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, SPAIN, SWITZERLAND, AND THE EURO-AMERICAN GROUP.

Table 14a
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN CONTINENTAL EUROPE *
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL ASSETS	19,829	1,400	12,826	4,408	1,195
ASSETS OF "STANDARD" BANKING BUSINESS	14,816	863	9,231	3,763	958
LOANS AND CREDITS	5,827	350	3,087	1,934	456
COMMERCIAL AND INDUSTRIAL	5,319	350	3,032	1,486	451
(U.S.)	(3,852)	(241)	(2,063)	(1,231)	(317)
(FOREIGN)	(1,467)	(109)	(969)	(255)	(134)
MISC. U.S. LOANS INCLUDING RETAIL	508	0	55	448	5
MONEY-MARKET ASSETS	7,395	433	5,666	951	345
INTERBANK LOANS AND DEPOSITS	6,102	400	5,156	326	221
(U.S.)	(3,728)	(289)	(3,136)	(242)	(61)
(FOREIGN)	(2,375)	(110)	(2,020)	(84)	(160)
LOANS TO SECURITY DEALERS	278	13	193	72	0
U.S. GOVT. AND AGENCY SECURITIES	1,015	20	318	553	124
MISCELLANEOUS ASSETS	1,594	80	478	879	157
ASSETS ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	5,013	536	3,595	645	237
CLEARING BALANCES DUE FROM OTHERS	2,675	69	2,001	468	137
DUE FROM U.S. BANKING AFFILIATES	676	155	413	47	60
DUE FROM FOREIGN PARENT & AFFILIATES	1,663	312	1,180	130	40

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

* INCLUDES FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, SPAIN, SWITZERLAND, AND THE EURO-AMERICAN GROUP.

Table 14b
U.S. BANKING INSTITUTIONS OWNED BY BANKS IN CONTINENTAL EUROPE *
FOR MONTHLY REPORT DATE IN -----JUNE 1976
(IN MILLIONS OF DOLLARS)

	ALL REPORTERS	AGENCIES	BRANCHES	COMMERCIAL BANKS	INVESTMENT COS.
TOTAL LIABILITIES AND EQUITY	19,829	1,400	12,826	4,408	1,195
LIABILITIES OF "STANDARD" BANKING BUSINESS	12,532	731	7,524	3,637	640
LIABILITIES TO CORPORATIONS AND OTHER NON-BANKS	8,671	311	4,910	3,052	399
DEMAND DEPOSITS AND CREDIT BALANCES	1,507	11	398	968	130
TIME AND SAVINGS DEPOSITS AND OTHER BORROWINGS	7,165	300	4,512	2,083	269
(DEPOSITS OF U.S. RESIDENTS)	(4,536)	(33)	(1,733)	(2,710)	(60)
(DEPOSITS OF FOREIGNERS)	(4,135)	(277)	(3,177)	(342)	(339)
MONEY-MARKET LIABILITIES					
INTER-BANK BORROWINGS AND DEPOSIT LIABILITIES	3,059	383	2,314	294	69
U.S. BANKS	2,288	348	1,662	221	57
FOREIGN BANKS	771	34	652	73	12
MISCELLANEOUS LIABILITIES	802	38	300	291	172
LIABILITIES ARISING FROM TRANSACTIONS INVOLVING PARENT AND AFFILIATES	6,605	648	5,244	284	429
CLEARING BALANCES DUE TO OTHERS	1,335	106	761	209	259
DUE TO U.S. BANKING AFFILIATES	615	105	496	3	11
DUE TO FOREIGN PARENT AND AFFILIATES	4,655	436	3,986	73	159
CAPITAL ACCOUNTS AND RESERVES	692	20	58	487	126
NUMBER OF REPORTING INSTITUTIONS	49	13	26	7	3

NOTE: DETAILS MAY NOT ADD TO TOTALS DUE TO ROUNDING.

* INCLUDES FRANCE, GERMANY, GREECE, ITALY, THE NETHERLANDS, SPAIN, SWITZERLAND, AND THE EURO-AMERICAN GROUP.

TABLE 15

LOCATION OF FOREIGN BANKING INSTITUTIONS IN THE U.S. AS OF JUNE 1976

COUNTRY OF PARENT BANK	CATEGORY OF INSTITUTION				
STATE OF REPORTER	AGENCIES	BRANCHES	SUBSIDIARIES	INVESTMENT COS	TOTAL
JAPAN					
NEW YORK	16	2	3	0	21
CALIFORNIA	15	-	6	-	21
ILLINOIS	-	2	1	-	3
ALL OTHERS	0	3	0	-	3
	---	---	---	---	---
TOTAL	31	7	10	0	48
CANADA					
NEW YORK	5	0	5	0	10
CALIFORNIA	6	-	3	-	9
ILLINOIS	-	0	0	-	0
ALL OTHERS	0	6	0	-	6
	---	---	---	---	---
TOTAL	11	6	8	0	25
UNITED KINGDOM					
NEW YORK	1	5	2	1	9
CALIFORNIA	3	-	3	-	6
ILLINOIS	-	4	0	-	4
ALL OTHERS	0	3	0	-	3
	---	---	---	---	---
TOTAL	4	12	5	1	22
CONTINENTAL EUROPE					
NEW YORK	3	15	5	3	26
CALIFORNIA	10	-	1	-	11
ILLINOIS	-	11	1	-	12
ALL OTHERS	0	0	0	-	0
	---	---	---	---	---
TOTAL	13	26	7	3	49
REST OF THE WORLD					
NEW YORK	15	11	2	0	28
CALIFORNIA	12	-	2	-	14
ILLINOIS	-	5	0	-	5
ALL OTHERS	1	1	0	-	2
	---	---	---	---	---
TOTAL	28	17	4	0	49
ALL REPORTERS					
NEW YORK	40	33	17	4	94
CALIFORNIA	46	-	15	-	61
ILLINOIS	-	22	2	-	24
ALL OTHERS	1	13	0	-	14
	---	---	---	---	---
TOTAL	87	68	34	4	193

Table 16a
Foreign Banking Institutions in the United States
listed by Type of Institution, as cf June 1976

INSTITUTE CODE

01 AGENCIES

BANK NAME	CITY	PARENT BANKING ORGANIZATION
BANCO DI NAPOLI AGENCY	NEW YORK	BANCO DI NAPOLI
BANCO NACL DE MEXICO AGENCY	NEW YORK	BANCO NACL DE MEXICO
BANGKOK BANK LTD AGENCY	NEW YORK	BANGKOK BANK LTD
TAIYO KOBE LTD AGENCY	NEW YORK	TAIYO KOBE BANK
BANK LEUMI LE-ISRAEL	NEW YORK	BANK LEUMI LE-ISRAEL
BANK MELLI IRAN AGENCY	NEW YORK	BANK MELLI IRAN
BANK OF MONTREAL AGENCY	NEW YORK	BANK OF MONTREAL
BANK OF NOVA SCOTIA AGENCY	NEW YORK	BANK OF NOVA SCOTIA
BANK SADERAT IRAN AGENCY	NEW YORK	BANK SADERAT IRAN
BANK OF TOKYO LTD AGENCY	NEW YORK	BANK OF TOKYO
CANAD IMPL BK OF COMM AGENCY	NEW YORK	CANAD IMPL BK OF COMM
THOS COOK AND SON AGENCY	NEW YORK	THOS COOK AND SON
DAI-ICHI KANGYO BANK AGENCY	NEW YORK	DAI-ICHI KANGYO BANK
DAIWA BANK LTD AGENCY	NEW YORK	DAIWA BANK
FUJI BANK LTD AGENCY	NEW YORK	FUJI BANK
INTL COMM BK OF CHINA AGENCY	NEW YORK	INTL COMM BK OF CHINA
KOREA EXCHANGE BANK AGENCY	NEW YORK	KOREA EXCHANGE BANK
MITSUBISHI BANK LTD AGENCY	NEW YORK	MITSUBISHI BANK
MITSUI BANK LTD AGENCY	NEW YORK	MITSUI BANK
ROYAL BANK OF CANADA AGENCY	NEW YORK	ROYAL BANK OF CANADA
SANWA BANK LTD AGENCY	NEW YORK	SANWA BANK
SUMITOMO BANK LTD AGENCY	NEW YORK	SUMITOMO BANK
TOKAI BANK LTD AGENCY	NEW YORK	TOKAI BANK
TORONTO-DOMINION BANK AGENCY	NEW YORK	TORONTO DOMINION BANK
THE SAITAMA BANK, LTD.	NEW YORK	SAITAMA BANK
INDUSTRIAL BANK OF JAPAN LTD	NEW YORK	INDUST BK OF JAPAN
HOKKAIDO TAKUSHOKU BANK LTD.	NEW YORK	HOKKAIDO TAKUSHOKU
OVERSEAS UNION BANK, LTD	NEW YORK	OVERSEAS UNION
KYOWA BANK	NEW YORK	KYOWA BANK
BANCO DO ESTADO DE SAO PAULO	NEW YORK	ESTADO DE SAO PAULO
THE MITSUI TR & BKNG CO LTD	NEW YORK	MITSUI TR & BKNG CO.
MITSUBISHI TR & BNKG CORP	NEW YORK	MITSUBISHI TR & BKNG
BANCO MERCANTIL DE SAO PAULO	NEW YORK	MERCANTL DE SAO PAULO
BANCO URQUIJO	NEW YORK	BANCO URQUIJO
BANCO DE BILBAO	NEW YORK	BANCO DE BILBAO
BANCO UNION C.A.	NEW YORK	BANCO UNION C.A.
BANCO IND DE VENEZUELA C.A.	NEW YORK	BANCO IND DE VENEZUEL
BANK OF NEW SOUTH WALES	NEW YORK	BK OF NEW SOUTH WALES
COMMERCIAL BANK OF KOREA	NEW YORK	COMM BANK OF KOREA
AUSTRALIA & N ZEALAND BKG GR	NEW YORK	AUST & NEW ZEALAND GR

INSTITUTE CODE

01 AGENCIES

Table 16a, page 2

BANK NAME	CITY	PARENT BANKING ORGANIZATION
TAIYO KOBE AGENCY	LOS ANGELES	TAIYO KOBE BANK
BANK OF TOKYO AGENCY	LOS ANGELES	BANK OF TOKYO
DAI-ICHI KANGYO BANK AGENCY	LOS ANGELES	DAI-ICHI KANGYO BANK
DAIWA BANK AGENCY	LOS ANGELES	DAIWA BANK
EURO-AM BANKING CORP AGENCY	LOS ANGELES	EUROPEAN-AMER 'GROUP'
FUJI BANK AGENCY	LOS ANGELES	FUJI BANK
KOREA EXCHANGE BANK AGENCY	LOS ANGELES	KOREA EXCHANGE BANK
MITSUBISHI BANK LTD AGENCY	LOS ANGELES	MITSUBISHI BANK
MITSUI BANK LTD AGENCY	LOS ANGELES	MITSUI BANK
SWISS CREDIT BANK AGENCY	LOS ANGELES	SWISS CREDIT BANK
TOKAI BANK AGENCY	LOS ANGELES	TOKAI BANK
BANCO DI ROMA AGENCY	SAN FRANCISCO	BANCO DI ROMA
BANK OF MONTREAL AGENCY	SAN FRANCISCO	BANK OF MONTREAL
BANK OF NOVA SCOTIA AGENCY	SAN FRANCISCO	BANK OF NOVA SCOTIA
BANK OF TOKYO AGENCY	SAN FRANCISCO	BANK OF TOKYO
BANQUE NATLE DE PARIS AGENCY	SAN FRANCISCO	BANQUE NATLE DE PARIS
BARCLAYS BANK INTL AGENCY	SAN FRANCISCO	BARCLAYS GROUP
CANAD IMPL BK OF COMM AGENCY	SAN FRANCISCO	CANAD IMPL BK OF COMM
CHARTD BANK OF LONDON AGENCY	SAN FRANCISCO	STAND-CHARTERED GROUP
HONGKONG & SHANGHAI BK AGENC	SAN FRANCISCO	HONGKONG AND SHANGHAI
NATL WESTMINSTER BANK AGENCY	SAN FRANCISCO	NATL WESTMINSTER BANK
PHILIPPINE NATL BK AGENCY	SAN FRANCISCO	PHILIPPINE NATL BANK
ROYAL BANK OF CANADA AGENCY	SAN FRANCISCO	ROYAL BANK OF CANADA
SANWA BANK LTD AGENCY	SAN FRANCISCO	SANWA BANK
SUMITOMO BANK LTD AGENCY	SAN FRANCISCO	SUMITOMO BANK
SWISS BANK CORP AGENCY	SAN FRANCISCO	SWISS BANK CORP
TORONTO DOMINION BANK AGENCY	SAN FRANCISCO	TORONTO DOMINION BANK
SHANGHAI COMMERCIAL BANK LTD	SAN FRANCISCO	SHANGHAI COMM BANK
BANK OF BRITISH COLUMBIA	SAN FRANCISCO	BANK OF BRIT COLUM
BANCO DO BRASIL S A	SAN FRANCISCO	BANCO DO BRASIL
THE INDUSTRIAL BK JAPAN LTD	LOS ANGELES	INDUST BK OF JAPAN
BANCO DE COMERCIO	LOS ANGELES	BANCO DE COMERCIO
EUROPEAN-AMERICAN BKNG CORP	SAN FRANCISCO	EUROPEAN-AMER 'GROUP'
CRED T LYONNAIS PARIS	LOS ANGELES	CREDIT LYONNAIS
BANCA COMMERCIALE ITALIANA	LOS ANGELES	BANCA COMM ITALIANA
DRESDNER BK AG FRANKFORT	LOS ANGELES	DRESDNER BANK
HOKKAIDO TAKUSHOKU	LOS ANGELES	HOKKAIDO TAKUSHOKU
SAITAMA BANK	LOS ANGELES	SAITAMA BANK
BANCO DO BRASIL	LOS ANGELES	BANCO DO BRASIL
ALGEMENE BK NEDERLAND	LOS ANGELES	ALGEMENE BK NEDERLAND
BANCO NATL DE MEXICO	LOS ANGELES	BANCO NACL DE MEXICO
KYOWA BANK AGENCY	LOS ANGELES	KYOWA BANK
BANCO REAL	LOS ANGELES	BANCO REAL

INSTITUTE CODE

01 AGENCIES

Table 16a, page 3

BANK NAME	CITY	PARENT BANKING ORGANIZATION
BANCO DO ESTADO DE SAO PAULO	SAN FRANCISCO	ESTADO DE SAO PAULO
BANK LEUMI LE-ISRAEL,B.M.	BEVERLY HILLS	BANK LEUMI LE-ISRAEL
BANGKOK BANK LTD	SAN FRANCISCO	BANGKOK BANK LTD
PHILIPPINE NATL BK AGENCY	HONOLULU	PHILIPPINE NATL BANK

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02 BRANCHES

Table 16a, page 4

BANK NAME	CITY	PARENT BANKING ORGANIZATION
BARCLAYS BANK INTNL	BOSTON	BARCLAYS GROUP
BANCO DE BOGOTA	NEW YORK	BANCO DE BOGOTA
BANCO DI ROMA	NEW YORK	BANCO DI ROMA
BANCO DO BRASIL BRANCH	NEW YORK	BANCO DO BRASIL
BANCA COMM ITALIANA BRANCH	NEW YORK	BANCA COMM ITALIANA
BANCA NAZLE DEL LAVORO BRANC	NEW YORK	BANCA NAZLE DELLAVORO
BANCO DE LA NACION	NEW YORK	BANCO DE LA NACION
BANCO REAL BRANCH	NEW YORK	BANCO REAL
BANK FUR GEMEINWIRTSCHAFT	NEW YORK	BK GEMEINWIRTSCHAFT
BANK HAPOALIM, B. M.	NEW YORK	BANK HAPOALIM
BARCLAYS BANK INTL BRANCH	NEW YORK	BARCLAYS GROUP
CHARTD BANK OF LONDON BRANCH	NEW YORK	STAND-CHARTERED GROUP
COMMERZBANK AKT BRANCH	NEW YORK	COMMERZBANK AKT
CREDIT INDUSTRIEL ET COMML	NEW YORK	COMP FIN DE SUEZ
CREDIT LYONNAIS BRANCH	NEW YORK	CREDIT LYONNAIS
CREDITO ITALIANO	NEW YORK	CREDITO ITAL AND
DRESDNER BANK BRANCH	NEW YORK	DRESDNER BANK
HABIB BANK BRANCH	NEW YORK	HAB B BANK
HONGKONG & SHANGHAI BK BRANC	NEW YORK	HONGKONG AND SHANGHAI
ISRAEL DISCOUNT BANK	NEW YORK	ISRAEL DISCOUNT BK
LLOYDS BK INTL LTD	NEW YORK	LLOYDS-INTL BK
LONG-TERM CREDIT BK OF JAPAN	NEW YORK	LONG TERM CREDIT
NATL BANK OF PAKISTAN BRANCH	NEW YORK	NATL BANK OF PAKISTAN
NATL WESTMINSTER BANK BRANCH	NEW YORK	NATL WESTMINSTER BANK
ALGEMENE BK NEDERLAND BRANCH	NEW YORK	ALGEMENE BK NEDERLAND
PHILIPPINE NATL BANK BRANCH	NEW YORK	PHILIPPINE NATL BANK
STANDARD CHARTERED BANK LTD	NEW YORK	STAND-CHARTERED GROUP
STATE BANK OF INDIA BRANCH	NEW YORK	STATE BANK OF INDIA
SWISS BANK CORP BRANCH	NEW YORK	SWISS BANK CORP
SWISS CREDIT BANK BRANCH	NEW YORK	SWISS CREDIT BANK
TOYO TRUST & BANKING CO LTD	NEW YORK	TOYO TR & BKG CO LTD
UNION BANK OF BAVARIA	NEW YORK	UNION BK OF BAVARIA
UNION BK OF SWITZERLAND	NEW YORK	UNION BK OF SWITZ
WESTDEUTSCHE LANDESBANK	NEW YORK	WESTDEUTSCHE LANDESBK
BANK OF NOVA SCOTIA BRANCH	SAN JUAN	BANK OF NOVA SCOTIA
ROYAL BANK OF CANADA BRANCH	SAN JUAN	ROYAL BANK OF CANADA
BANK OF NOVA SCOTIA	CHRISTENSTED	BANK OF NOVA SCOTIA
BARCLAYS BANK INTL BRANCH	CHARLOTTE AMALIE	BARCLAYS GROUP
ROYAL BANK OF CANADA BRANCH	CHRISTENSTED	ROYAL BANK OF CANADA

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02 BRANCHES

Table 16a, page 5

BANK NAME	CITY	PARENT BANKING ORGANIZATION
ALGEMENE BANK NEDERLAND N.V.	CHICAGO	ALGEMENE BK NEDERLAND
BANCA COMMERCIALE ITALIANA	CHICAGO	BANCA COMM ITALIANA
BANK LEUMI LE-ISRAEL	CHICAGO	BANK LEUMI LE-ISRAEL
BARCLAYS BANK INTNL LTD	CHICAGO	BARCLAYS GRUUP
BANQUE NATIONALE DE PARIS	CHICAGO	BANQUE NATLE DE PARIS
BNQ DE LINDOCHINE ET DE SUEZ	CHICAGO	COMP FIN DE SUEZ
THE CHARTERED BANK	CHICAGO	STAND-CHARTERED GROUP
COMMERZBANK AKT	CHICAGO	COMMERZBANK AKT
CREDIT LYONNAIS	CHICAGO	CREDIT LYONNAIS
DRESDNER BANK	CHICAGO	DRESDNER BANK
EUROPEAN BANKING CO LTD	CHICAGO	EUROPEAN-AMER 'GROUP'
HONGKONG & SHANGHAI BK BRANC	CHICAGO	HONGKONG AND SHANGHAI
KOREA EXCHANGE BANK BRANCH	CHICAGO	KOREA EXCHANGE BANK
INTL COMM BK OF CHINA BRANCH	CHICAGO	INTL COMM BK OF CHINA
LLOYDS BK INTL LTD	CHICAGO	LLOYDS-INTL BK
NATIONAL BK OF GREECE S.A.	CHICAGO	NATL BK OF GREECE
NATIONAL WESTMINSTER BK LTD	CHICAGO	NATL WESTMINSTER BANK
THE SANWA BK LTD CHGO OFC	CHICAGO	SANWA BANK
STATE BANK OF INDIA	CHICAGO	STATE BANK OF INDIA
THE SUMITOMO BK LTD	CHICAGO	SUMITOMO BANK
SWISS BANK CORPORTION	CHICAGO	SWISS BANK CORP
UNION BANK OF BAVARIA	CHICAGO	UNION BK OF BAVARIA
BANK OF TOKYO LTD BRANCH	PORTLAND	BANK OF TOKYO
CANAD IMPL BK OF COMM BRANCH	PORTLAND	CANAD IMPL BK OF COMM
BANK OF TOKYO LTD BRANCH	SEATTLE	BANK OF TOKYO
CANAD IMPL BK OF COMM BRANCH	SEATTLE	CANAD IMPL BK OF COMM
"THE CHARTERED BK", LONDON	SEATTLE	STAND-CHARTERED GROUP
HONGKONG & SHANGHAI BKG CORP	SEATTLE	HONGKONG AND SHANGHAI
TAIYO KOBE BANK LTD	SEATTLE	TAIYO KOBE BANK

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03 BANKING SUBSIDIARIES

Table 16a, page 6

BANK NAME	CITY	PARENT BANKING ORGANIZATION
REPUBLIC NATL BANK OF NY	NEW YORK	TRADE DEVELOPMENT BK
AMERICAN BANK AND TRUST CO	NEW YORK	CONTINENTAL TRADE BK
ATLANTIC BANK OF NEW YORK	NEW YORK	NATL BK OF GREECE
BANK LEUMI LE-ISRAEL	NEW YORK	BANK LEUMI LE-ISRAEL
BANK OF MONTREAL TRUST CO	NEW YORK	BANK OF MONTREAL
BANK OF NOVA SCOTIA TRUST CO	NEW YORK	BANK OF NOVA SCOTIA
BANK OF TOKYO TRUST CO	NEW YORK	BANK OF TOKYO
BARCLAYS BANK OF NEW YORK	NEW YORK	BARCLAYS GROUP
CANAD BK OF COMM TRUST CO	NEW YORK	CANAD IMPL BK OF COMM
EUROPEAN-AMERICAN B AND T CO	NEW YORK	EUROPEAN-AMER 'GROUP'
FUJI BANK & TRUST CO	NEW YORK	FUJI BANK
INDUSTRIAL BANK OF JAPAN	NEW YORK	INDUST BK OF JAPAN
ISRAEL DISCOUNT BANK	NEW YORK	ISRAEL DISCOUNT BK
ROYAL BK OF CANADA TRUST CO	NEW YORK	ROYAL BANK OF CANADA
SCHRODER TRUST CO	NEW YORK	SCHRODER GROUP
TORONTO-DOMINION B AND T CO	NEW YORK	TORONTO DOMINION BANK
U.B.A.F. ARAB-AMERICAN BANK	NEW YORK	BQS ARABES & FRANCAIS
BANCO DI ROMA	CHICAGO	BANCO DI ROMA
FIRST PACIFIC BK OF CHICAGO	CHICAGO	DAI-ICHI KANGYO BANK
KOREA EXCHANGE BK OF CALIF	LOS ANGELES	KOREA EXCHANGE BANK
LLOYDS BK OF CALIF	LOS ANGELES	LLOYDS-INTL BK
MITSUBISHI BANK OF CALIF	LOS ANGELES	MITSUBISHI BANK
MITSUI BK OF CALIFORNIA	LOS ANGELES	MITSUI BANK
TOKAI BK OF CALIFORNIA	LOS ANGELES	TOKAI BANK
BANK OF MONTREAL-CALIFORNIA	SAN FRANCISCO	BANK OF MONTREAL
BARCLAYS BANK OF CALIFORNIA	SAN FRANCISCO	BARCLAYS GROUP
CALIFORNIA CANADIAN BANK	SAN FRANCISCO	CANAD IMPL BK OF COMM
CALIFORNIA FIRST BANK	SAN FRANCISCO	BANK OF TOKYO
CHARTERED BK OF LONDON-CALIF	SAN FRANCISCO	STAND-CHARTERED GROUP
FRENCH BANK OF CALIFORNIA	SAN FRANCISCO	BANQUE NATLE DE PARIS
HONGKONG BK OF CALIFORNIA	SAN FRANCISCO	HONGKONG AND SHANGHAI
SANWA BANK OF CALIFORNIA	SAN FRANCISCO	SANWA BANK
SUMITOMO BANK OF CALIFORNIA	SAN FRANCISCO	SUMITOMO BANK
TORONTO DOMINION BK OF CALIF	SAN FRANCISCO	TORONTO DOMINION BANK

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INSTITUTE CODE

05 INVESTMENT COMP. Table 16a, page 7

BANK NAME	CITY	PARENT BANKING ORGANIZATION
EUROPEAN-AMERICAN BKG CORP	NEW YORK	EUROPEAN-AMER 'GROUP'
FRENCH-AMERICAN BKG CORP	NEW YORK	BANQUE NATLE DE PARIS
J HENRY SCHRODER BKG CORP	NEW YORK	SCHRODER GROUP
NORDIC AMERICAN BANKING CORP	NEW YORK	SVENSKAHANDELSBANKEN

Table 16b
Foreign Banking Institutions in the United States listed by Country of Parent Bank, as of June 1976

PARENT COUNTRY	PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
FRANCE				
	BANQUE NATLE DE PARIS	05	FRENCH-AMERICAN BKG CORP	NEW YORK
		02	BANQUE NATIONALE DE PARIS	CHICAGO
		01	BANQUE NATLE DE PARIS AGENCY	SAN FRANCISCO
		03	FRENCH BANK OF CALIFORNIA	SAN FRANCISCO
	CREDIT LYONNAIS	02	CREDIT LYONNAIS BRANCH	NEW YORK
		02	CREDIT LYONNAIS	CHICAGO
		01	CREDIT LYONNAIS PARIS	LOS ANGELES
	COMP FIN DE SUEZ	02	CREDIT INDUSTRIEL ET COMML	NEW YORK
		02	BNQ DE LINDOCHINE ET DE SUEZ	CHICAGO
	BQS ARABES & FRANCAIS	03	U.B.A.F. ARAB-AMERICAN BANK	NEW YORK
GERMANY, FEDERAL REPUBLIC OF				
	COMMERZBANK AKT	02	COMMERZBANK AKT BRANCH	NEW YORK
		02	COMMERZBANK AKT	CHICAGO
	DRESDNER BANK	02	DRESDNER BANK BRANCH	NEW YORK
		02	DRESDNER BANK	CHICAGO
		01	DRESDNER BK AG FRANKFORT	LOS ANGELES
	UNION BK OF BAVARIA	02	UNION BANK OF BAVARIA	NEW YORK
		02	UNION BANK OF BAVARIA	CHICAGO
	WESTDEUTSCHE LANDESBK	02	WESTDEUTSCHE LANDESBANK	NEW YORK
	BK GEMEINWIRTSCHAFT	02	BANK FUR GEMEINWIRTSCHAFT	NEW YORK
GREECE				
	NATL BK OF GREECE	03	ATLANTIC BANK OF NEW YORK	NEW YORK
		02	NATIONAL BK OF GREECE S.A.	CHICAGO
ITALY				
	BANCA COMM ITALIANA	02	BANCA COMM ITALIANA BRANCH	NEW YORK
		02	BANCA COMMERCIALE ITALIANA	CHICAGO
		01	BANCA COMMERCIALE ITALIANA	LOS ANGELES
	BANCA NAZLE DELLAVORO	02	BANCA NAZLE DEL LAVORO BRANC	NEW YORK
	BANCO DI NAPOLI	01	BANCO DI NAPOLI AGENCY	NEW YORK
	BANCO DI ROMA	02	BANCO DI ROMA	NEW YORK
		03	BANCO DI ROMA	CHICAGO
		01	BANCO DI ROMA AGENCY	SAN FRANCISCO
	CREDITO ITALIANO	02	CREDITO ITALIANO	NEW YORK

Table 16b, page 2

PARENT COUNTRY	PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
NETHERLANDS				
	ALGEMENE BK NEDERLAND	02	ALGEMENE BK NEDERLAND BRANCH	NEW YORK
		02	ALGEMENE BANK NEDERLAND N.V.	CHICAGO
		01	ALGEMENE BK NEDERLAND	LOS ANGELES
SPAIN				
	BANCO URQUIJO	01	BANCO URQUIJO	NEW YORK
	BANCO DE BILBAO	01	BANCO DE BILBAO	NEW YORK
SWEDEN				
	SVENSKAHANDELSBANKEN	05	NORDIC AMERICAN BANKING CORP	NEW YORK
SWITZERLAND				
	CONTINENTAL TRADE BK	03	AMERICAN BANK AND TRUST CO	NEW YORK
	TRADE DEVELOPMENT BK	03	REPUBLIC NATL BANK OF NY	NEW YORK
	SWISS BANK CORP	02	SWISS BANK CORP BRANCH	NEW YORK
		02	SWISS BANK CORPORTION	CHICAGO
		01	SWISS BANK CORP AGENCY	SAN FRANCISCO
	SWISS CREDIT BANK	02	SWISS CREDIT BANK BRANCH	NEW YORK
		01	SWISS CREDIT BANK AGENCY	LOS ANGELES
	UNION BK OF SWITZ	02	UNION BK OF SWITZERLAND	NEW YORK
UNITED KINGDOM				
	BARCLAYS GROUP	02	BARCLAYS BANK INTNL	BOSTON
		02	BARCLAYS BANK INTL BRANCH	NEW YORK
		03	BARCLAYS BANK OF NEW YORK	NEW YORK
		02	BARCLAYS BANK INTL BRANCH	CHARLOTTE AMALIE
		02	BARCLAYS BANK INTNL LTD	CHICAGO
		01	BARCLAYS BANK INTL AGENCY	SAN FRANCISCO
		03	BARCLAYS BANK OF CALIFORNIA	SAN FRANCISCO
	STAND-CHARTERED GROUP	02	CHARTD BANK OF LONDON BRANCH	NEW YORK
		02	STANDARD CHARTERED BANK LTD	NEW YORK
		02	THE CHARTERED BANK	CHICAGO
		01	CHARTD BANK OF LONDON AGENCY	SAN FRANCISCO
		03	CHARTERED BK OF LONDON-CALIF	SAN FRANCISCO
		02	"THE CHARTERED BK", LONDON	SEATTLE
	SCHRODER GROUP	05	J HENRY SCHRODER BKG CORP	NEW YORK
		03	SCHRODER TRUST CO	NEW YORK

Table 16b, page 3

PARENT COUNTRY	PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
UNITED KINGDOM				
	LLOYDS-INTL BK	02	LLOYDS BK INTL LTD	NEW YORK
		02	LLOYDS BK INTL LTD	CHICAGO
		03	LLOYDS BK OF CALIF	LOS ANGELES
	NATL WESTMINSTER BANK	02	NATL WESTMINSTER BANK BRANCH	NEW YORK
		02	NATIONAL WESTMINSTER BK LTD	CHICAGO
		01	NATL WESTMINSTER BANK AGENCY	SAN FRANCISCO
	THOS COOK AND SON	01	THOS COOK AND SON AGENCY	NEW YORK
OTHER WESTERN EUROPE				
	EUROPEAN-AMER 'GROUP'	05	EUROPEAN-AMERICAN BKG CORP	NEW YORK
		03	EUROPEAN-AMERICAN B AND T CO	NEW YORK
		02	EUROPEAN BANKING CO LTD	CHICAGO
		01	EURO-AM BANKING CORP AGENCY	LOS ANGELES
		01	EUROPEAN-AMERICAN BKNG CORP	SAN FRANCISCO
CANADA				
	BANK OF MONTREAL	01	BANK OF MONTREAL AGENCY	NEW YORK
		03	BANK OF MONTREAL TRUST CO	NEW YORK
		01	BANK OF MONTREAL AGENCY	SAN FRANCISCO
		03	BANK OF MONTREAL-CALIFORNIA	SAN FRANCISCO
	BANK OF NOVA SCOTIA	01	BANK OF NOVA SCOTIA AGENCY	NEW YORK
		03	BANK OF NOVA SCOTIA TRUST CO	NEW YORK
		02	BANK OF NOVA SCOTIA BRANCH	SAN JUAN
		02	BANK OF NOVA SCOTIA	CHRISTENSTED
		01	BANK OF NOVA SCOTIA AGENCY	SAN FRANCISCO
	CANAD IMPL BK OF COMM	01	CANAD IMPL BK OF COMM AGENCY	NEW YORK
		03	CANAD BK OF COMM TRUST CO	NEW YORK
		01	CANAD IMPL BK OF COMM AGENCY	SAN FRANCISCO
		03	CALIFORNIA CANADIAN BANK	SAN FRANCISCO
		02	CANAD IMPL BK OF COMM BRANCH	PORTLAND
		02	CANAD IMPL BK OF COMM BRANCH	SEATTLE
	ROYAL BANK OF CANADA	01	ROYAL BANK OF CANADA AGENCY	NEW YORK
		03	ROYAL BK OF CANADA TRUST CO	NEW YORK
		02	ROYAL BANK OF CANADA BRANCH	SAN JUAN
		02	ROYAL BANK OF CANADA BRANCH	CHRISTENSTED
		01	ROYAL BANK OF CANADA AGENCY	SAN FRANCISCO
	TORONTO DOMINION BANK	01	TORONTO-DOMINION BANK AGENCY	NEW YORK
		03	TORONTO-DOMINION B AND T CO	NEW YORK
		01	TORONTO DOMINION BANK AGENCY	SAN FRANCISCO
		03	TORONTO DOMINION BK OF CALIF	SAN FRANCISCO
	BANK OF BRIT COLUM	01	BANK OF BRITISH COLUMBIA	SAN FRANCISCO

Table 16b, page 4

PARENT COUNTRY	PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
ARGENTINA				
	BANCO DE LA NACION	02	BANCO DE LA NACION	NEW YORK
BRAZIL				
	BANCO DO BRASIL	02	BANCO DO BRASIL BRANCH	NEW YORK
		01	BANCO DO BRASIL S A	SAN FRANCISCO
		01	BANCO DO BRASIL	LOS ANGELES
	BANCO REAL	02	BANCO REAL BRANCH	NEW YORK
		01	BANCO REAL	LOS ANGELES
	ESTADO DE SAO PAULO	01	BANCO DO ESTADO DE SAO PAULO	NEW YORK
		01	BANCO DO ESTADO DE SAO PAULO	SAN FRANCISCO
	MERCANTL DE SAO PAULO	01	BANCO MERCANTIL DE SAO PAULO	NEW YORK
COLOMBIA				
	BANCO DE BOGOTA	02	BANCO DE BOGOTA	NEW YORK
MEXICO				
	BANCO NACL DE MEXICO	01	BANCO NACL DE MEXICO AGENCY	NEW YORK
		01	BANCO NATL DE MEXICO	LOS ANGELES
	BANCO DE COMERCIO	01	BANCO DE COMERCIO	LOS ANGELES
VENEZUELA				
	BANCO UNION C.A.	01	BANCO UNION C.A.	NEW YORK
	BANCO IND DE VENEZUEL	01	BANCO IND DE VENEZUELA C.A.	NEW YORK
HONG KONG				
	HONGKONG AND SHANGHAI	02	HONGKONG & SHANGHAI BK BRANC	NEW YORK
		02	HONGKONG & SHANGHAI BK BRANC	CHICAGO
		01	HONGKONG & SHANGHAI BK AGENC	SAN FRANCISCO
		03	HONGKONG BK OF CALIFORNIA	SAN FRANCISCO
		02	HONGKONG & SHANGHAI BKG CORP	SEATTLE
	SHANGHAI COMM BANK	01	SHANGHAI COMMERCIAL BANK LTD	SAN FRANCISCO

Table 16b, page 5

PARENT COUNTRY	PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
INDIA				
	STATE BANK OF INDIA	02	STATE BANK OF INDIA BRANCH	NEW YORK
		02	STATE BANK OF INDIA	CHICAGO
IRAN				
	BANK MELLI IRAN	01	BANK MELLI IRAN AGENCY	NEW YORK
	BANK SADERAT IRAN	01	BANK SADERAT IRAN AGENCY	NEW YORK
ISRAEL				
	BANK LEUMI LE-ISRAEL	01	BANK LEUMI LE-ISRAEL	NEW YORK
		03	BANK LEUMI LE-ISRAEL	NEW YORK
		02	BANK LEUMI LE-ISRAEL	CHICAGO
		01	BANK LEUMI LE-ISRAEL,B.M.	BEVERLY HILLS
	ISRAEL DISCOUNT BK	02	ISRAEL DISCOUNT BANK	NEW YORK
		03	ISRAEL DISCOUNT BANK	NEW YORK
	BANK HAPOALIM	02	BANK HAPOALIM, B. M.	NEW YORK
JAPAN				
	TAIYO KOBE BANK	01	TAIYO KOBE LTD AGENCY	NEW YORK
		01	TAIYO KOBE AGENCY	LOS ANGELES
		02	TAIYO KOBE BANK LTD	SEATTLE
	BANK OF TOKYO	01	BANK OF TOKYO LTD AGENCY	NEW YORK
		03	BANK OF TOKYO TRUST CO	NEW YORK
		01	BANK OF TOKYO AGENCY	LOS ANGELES
		01	BANK OF TOKYO AGENCY	SAN FRANCISCO
		03	CALIFORNIA FIRST BANK	SAN FRANCISCO
		02	BANK OF TOKYO LTD BRANCH	PORTLAND
		02	BANK OF TOKYO LTD BRANCH	SEATTLE
	DAI-ICHI KANGYO BANK	01	DAI-ICHI KANGYO BANK AGENCY	NEW YORK
		03	FIRST PACIFIC BK OF CHICAGO	CHICAGO
		01	DAI-ICHI KANGYO BANK AGENCY	LOS ANGELES
	DAIWA BANK	01	DAIWA BANK L D AGENCY	NEW YORK
		01	DAIWA BANK AGENCY	LOS ANGELES
	FUJI BANK	01	FUJI BANK LTD AGENCY	NEW YORK
		03	FUJI BANK & TRUST CO	NEW YORK
		01	FUJI BANK AGENCY	LOS ANGELES

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PARENT COUNTRY	PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
JAPAN				
	HOKKAIDO TAKUSHOKU	01	HOKKAIDO TAKUSHOKU BANK LTD.	NEW YORK
		01	HOKKAIDO TAKUSHOKU	LOS ANGELES
	INDUST BK OF JAPAN	01	INDUSTRIAL BANK OF JAPAN LTD	NEW YORK
		03	INDUSTRIAL BANK OF JAPAN	NEW YORK
		01	THE INDUSTRIAL BK JAPAN LTD	LOS ANGELES
	MITSUBISHI BANK	01	MITSUBISHI BANK LTD AGENCY	NEW YORK
		01	MITSUBISHI BANK LTD AGENCY	LOS ANGELES
		03	MITSUBISHI BANK OF CALIF	LOS ANGELES
	MITSUI BANK	01	MITSUI BANK LTD AGENCY	NEW YORK
		01	MITSUI BANK LTD AGENCY	LOS ANGELES
		03	MITSUI BK OF CALIFORNIA	LOS ANGELES
	SANWA BANK	01	SANWA BANK LTD AGENCY	NEW YORK
		02	THE SANWA BK LTD CHGO OFC	CHICAGO
		01	SANWA BANK LTD AGENCY	SAN FRANCISCO
		03	SANWA BANK OF CALIFORNIA	SAN FRANCISCO
	SUMITOMO BANK	01	SUMITOMO BANK LTD AGENCY	NEW YORK
		02	THE SUMITOMO BK LTD	CHICAGO
		01	SUMITOMO BANK LTD AGENCY	SAN FRANCISCO
		03	SUMITOMO BANK OF CALIFORNIA	SAN FRANCISCO
	SAITAMA BANK	01	THE SAITAMA BANK, LTD.	NEW YORK
		01	SAITAMA BANK	LOS ANGELES
	TOKAI BANK	01	TOKAI BANK LTD AGENCY	NEW YORK
		01	TOKAI BANK AGENCY	LOS ANGELES
		03	TOKAI BK OF CALIFORNIA	LOS ANGELES
	KYOWA BANK	01	KYOWA BANK	NEW YORK
		01	KYOWA BANK AGENCY	LOS ANGELES
	LONG TERM CREDIT	02	LONG-TERM CREDIT BK OF JAPAN	NEW YORK
	MITSUBISHI TR & BKNG	01	MITSUBISHI TR & BNKG CORP	NEW YORK
	MITSUI TR & BKNG CO.	01	THE MITSUI TR & BKNG CO LTD	NEW YORK
	TOYO TR & BKG CO LTD	02	TOYO TRUST & BANKING CO LTD	NEW YORK
KOREA, SOUTH				
	KOREA EXCHANGE BANK	01	KOREA EXCHANGE BANK AGENCY	NEW YORK
		02	KOREA EXCHANGE BANK BRANCH	CHICAGO
		01	KOREA EXCHANGE BANK AGENCY	LOS ANGELES
		03	KOREA EXCHANGE BK OF CALIF	LOS ANGELES
	COMM BANK OF KOREA	01	COMMERCIAL BANK OF KOREA	NEW YORK
PAKISTAN				
	HABIB BANK	02	HABIB BANK BRANCH	NEW YORK
	NATL BANK OF PAKISTAN	02	NATL BANK OF PAKISTAN BRANCH	NEW YORK

Table 16b, page 7

PARENT COUNTRY	PARENT BANKING ORGANIZATION	INST CODE	BANK NAME	CITY
PHILIPPINES				
	PHILIPPINE NATL BANK	02	PHILIPPINE NATL BANK BRANCH	NEW YORK
		01	PHILIPPINE NATL BK AGENCY	SAN FRANCISCO
		01	PHILIPPINE NATL BK AGENCY	HONOLULU
SINGAPORE				
	OVERSEAS UNION	01	OVERSEAS UNION BANK, LTD	NEW YORK
CHINA, REPUBLIC OF TAIWAN				
	INTL COMM BK OF CHINA	01	INTL COMM BK OF CHINA AGENCY	NEW YORK
		02	INTL COMM BK OF CHINA BRANCH	CHICAGO
THAILAND				
	BANGKOK BANK LTD	01	BANGKOK BANK LTD AGENCY	NEW YORK
		01	BANGKOK BANK LTD	SAN FRANCISCO
AUSTRALIA				
	BK OF NEW SOUTH WALES	01	BANK OF NEW SOUTH WALES	NEW YORK
	AUST & NEW ZEALAND GR	01	AUSTRALIA & N ZEALAND BKG GR	NEW YORK

*Institution codes:
- 01 agencies
- 02 branches
- 03 subsidiary commercial banks
- 05 New York State investment companies

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TABLE 17
LOCATION OF FOREIGN BANKING INSTITUTIONS IN THE U.S.
BY COUNTRY AND "FAMILY" AS OF JUNE 1976

COUNTRY / FAMILY	FR DISTRICT/STATE 01		02		07	12				
	MASS	N.Y.	V.IS	P.R.	ILL.	CALIF	HAW.	ORE.	WASH	TOTAL
(EUROPE)										
FRANCE										
BANQUE NATLE DE PARIS		I			B	A S				4
COMP FIN DE SUEZ		B			B					2
CREDIT LYONNAIS		B			B	A				3
BQS ARABES & FRANCAIS		S								1
GERMANY										
BK GEMEINWIRTSCHAFT		B								1
COMMERZBANK AKT		B			B					2
DRESDNER BANK		B			B	A				3
UNION BANK OF BAVARIA		B			B					2
WESTDEUTSCHE LANDESBK		B								1
GREECE										
NATL BANK OF GREECE		S			B					2
ITALY										
BANCA COMM ITALIANA		B			B	A				3
BANCA NAZL DEL LAVORO		B								1
BANCO DI NAPOLI		A								1
BANCO DI ROMA		B			S	A				3
CREDITO ITALIANO		B								1
NETHERLANDS										
ALGEME BK NEDERLAND		B			B	A				3
SPAIN										
BANCO DE BILBAO		A								1
BANCO URQUIJO		A								1
SWEDEN										
SVENSKAHANDELSBANKEN		I								1
SWITZERLAND										
CONTINENTL TRADE BANK		S								1
SWISS BANK CORP		B			B	A				3
SWISS CREDIT BANK		B				A				2
TRADE DEVELUPMENT BK		S								1
UNION BANK OF SWITZ		B								1
UNITED KINGDOM										
BARCLAYS GROUP	B	B S	B		B	A S				7
LLOYDS-INTL BANK		B			B	S				3
NATL WESTMINSTER BANK		B			B	A				3
SCHRODER GROUP		SI								2
STAND-CHARTERED GROUP		BB			B	A S			B	6
THOMAS COOK AND SON		A								1
OTHER WESTERN EUROPE										
EUROPEAN-AMER "GROUP"		SI			B	AA				5
CANADA										
BANK OF BRITISH COLUM						A				1
BANK OF MONTREAL		A S				A S				4
BANK OF NOVA SCOTIA		A S	B	B		A				5
CANAD IMPL BK OF COMM		A S				A S		B	B	6
ROYAL BANK OF CANADA		A S	B	B		A				5
TORONTO DOMINION BANK		A S				A S				4

TABLE 17
LOCATION OF FOREIGN BANKING INSTITUTIONS IN THE U.S.
BY COUNTRY AND "FAMILY" AS OF JUNE 1976

COUNTRY / FAMILY	FR DISTRICT/STATE 01 MASS	02 N.Y.	02 V.IS	02 P.R.	07 ILL.	12 CALIF	12 HAW.	12 ORE.	12 WASH	TOTAL
(LATIN AMERICA)										
ARGENTINA										
BANCO DE LA NACION		B								1
BRAZIL										
BANCO DO BRASIL		B				AA				3
BANCO REAL		B				A				2
ESTADO DE SAO PAULO		A				A				2
MERCANTL DE SAO PAULO		A								1
COLUMBIA										
BANCO DE BOGOTA		B								1
MEXICO										
BANCO DE COMERCIO						A				1
BANCO NACL DE MEXICO		A				A				2
VENEZUELA										
BANCO IND DE VENEZUEL		A								1
BANCO UNION C.A.		A								1
(ASIA)										
HONGKONG										
HONGKONG&SHANGHAI BK		B			B	A S			B	5
SHANGHAI COMM BANK						A				1
INDIA										
STATE BANK OF INDIA		B			B					2
IRAN										
BANK MELLI IRAN		A								1
BANK SADERAT IRAN		A								1
ISRAEL										
BANK HAPOALIM		B								1
BANK LEUMI LE-ISRAEL		A S			B	A				4
ISRAEL DISCOUNT BANK		B S								2
JAPAN										
BANK OF TOKYO		A S				AA S		B	B	7
DAI-ICHI KANGYO BANK		A			S	A				3
DAIWA BANK		A				A				2
FUJI BANK		A S				A				3
HOKKAIDO TAKUSHOKU		A				A				2
INDUST BANK OF JAPAN		A S				A				3
KYOWA BANK		A				A				2
LONG TERM CREDIT		B								1
MITSUBISHI BANK		A				A S				3
MITSUBISHI TR & BKNG		A								1
MITSUI BANK		A				A S				3
MITSUI TR & BKNG CO.		A								1
SAITAMA BANK		A				A				2
SANWA BANK		A			B	A S				4
SUMITOMO BANK		A			B	A S				4
TAIYO KOBE BANK		A				A			B	3
TOKAI BANK		A				A S				3
TOYO TR & BKG CO LTD		B								1

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TABLE 17
LOCATION OF FOREIGN BANKING INSTITUTIONS IN THE U.S.
BY COUNTRY AND "FAMILY" AS OF JUNE 1976

COUNTRY / FAMILY	FR DISTRICT/STATE									
	01	02			07	12				
	MASS	N.Y.	V.IS	P.R.	ILL.	CALIF	HAW.	ORE.	WASH	TOTAL
(ASIA, CONTINUED)										
KOREA,SOUTH										
COMM BANK OF KOREA		A								1
KOREA EXCHANGE BANK		A			B	A S				4
PAKISTAN										
HABIB BANK		B								1
NATL BANK OF PAKISTAN		B								1
PHILIPPINES										
PHILIPPINE NATL BANK		B				A	A			3
SINGAPORE										
OVERSEAS UNION		A								1
CHINA(REPUBLIC OF TAIWAN)										
INTL COMM BK OF CHINA		A			B					2
THAILAND										
BANGKOK BANK LTD		A				A				2
AUSTRALIA										
BK OF NEW SOUTH WALES		A								1
AUST & NEW ZEALAND GR		A								1
TOTALS										
A (AGENCIES)	0	40	0	0	0	46	1	0	0	87
B (BRANCHES)	1	33	3	2	22	0	0	2	5	68
S (SUBSIDIARIES)	0	17	0	0	2	15	0	0	0	34
I (NY INVESTMENT COS)		4								4
ALL REPORTERS	1	94	3	2	24	61	1	2	5	193

TOTAL FAMILIES = 83

TABLE 18

FOREIGN CONTROLLED U.S. SECURITIES COMPANIES AFFILIATED WITH

FOREIGN BANKS OPERATING BANKING OFFICES IN THE U.S.*

Securities Company	Capital[1/]	Rank by Capital Position	Affiliated Bank(s)
ABD Securities Corporation	$ 6,400,747	99	Algemene Bank Nederland, Amsterdam; Dresdner Bank, Frankfurt
Basle Securities Corporation			Swiss Bank Corporation
Daiwa Securities Company America, Inc.	3,000,000	152	Daiwa Bank, Tokyo
Europartners Securities Corporation	5,856,472	111	Banco di Roma, Rome; Commerzbank, Frankfurt; Credit Lyonnais, Paris
RWS Securities Services			Westdeutsche Landesbank Gironzentrale
SoGen Swiss International Corporation	13,456,760	49	Amsterdam-Rotterdam Bank N.V.; Societe Generale, Paris; Societe Generale de Banque S.A., Brussels[2/]
Suez American	1,343,888	222	Compagnie Financiere de Suez
Swiss American Securities, Inc.			Swiss Credit Bank
UBS-DB Corporation	7,663,838	81	Deutsche Bank, Frankfurt; Union Bank of Switzerland
Yamaichi International (America) Inc.	2,430,838	165	Fuji Bank of Japan; Industrial Bank of Japan; Mitsubishi Bank[3/]

*List does not include U.S. controlled securities companies in which foreign banks own a minority of the shares. It is noted, however, that some foreign banks have obtained a minority interest in large U.S. securities companies that are members of the New York Stock Exchange (stock exchange rules prohibit foreign control). For example, Credit Suisse and Banca Commerciale Italiana have acquired minority interests in, respectively, White, Weld & Co., and Shields Model Roland, Inc.

1/ Source, Finance Magazine, July, 1975. Includes both equity capital and subordinated liabilities.

2/ Stockholders of European American Bank and Trust Company, New York, New York.

3/ The three Japanese banks have agreed pursuant to section 4(a)(2) of the Bank Holding Company Act, 12 U.S.C. 1843(a)(2), to reduce their ownership of Yamaichi Securities Co., Ltd., Tokyo, Japan, parent of Yamaichi International (America) Inc., to not more than 5 per cent.

94TH CONGRESS
2D SESSION

H. R. 13876

IN THE SENATE OF THE UNITED STATES

JULY 30, 1976

Read twice and referred to the Committee on Banking, Housing and Urban Affairs

AN ACT

To provide for Federal regulation of participation by foreign banks in domestic financial markets.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE AND DEFINITIONS

SECTION 1. (a) This Act may be cited as the "International Banking Act of 1976".

(b) For the purposes of this Act—

(1) "agency" means any office or any place of business of a foreign bank located in any State of the United States at which credit balances are maintained incidental to or arising out of the exercise of banking powers, but

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at which deposits may not be accepted from citizens or residents of the United States;

(2) "Board" means the Board of Governors of the Federal Reserve System;

(3) "branch" means any office or any place of business of a foreign bank located in any State of the United States at which deposits are received and checks are paid or money is lent;

(4) "Comptroller" means the Comptroller of the Currency;

(5) "Federal agency" means an agency of a foreign bank established and operating under section 4 of this Act;

(6) "Federal branch" means a branch of a foreign bank established and operating under section 4 of this Act;

(7) "foreign bank" means any institution that (1) is organized under the laws of a foreign country, a territory of the United States, Puerto Rico, Guam, American Samoa, or the Virgin Islands, and (2) either (A) principally conducts its banking business outside the United States or (B) is a subsidiary, as that term is defined in the Bank Holding Company Act of 1956, of any institution which, on a consolidated basis, principally conducts its banking business outside the

United States. For the purposes of this Act, the term "foreign bank" includes, without limitation, foreign commercial banks, foreign merchant banks and other foreign institutions that engage in banking activities usual in connection with the business of banking in the countries where such foreign institutions are organized or operating;

(8) "foreign country" means any country other than the United States, and includes any colony, dependency, or possession of any such country;

(9) "commercial lending company" means any institution, other than a bank or an organization operating under section 25 of the Federal Reserve Act, organized under the laws of any State of the United States, or the District of Columbia which maintains credit balances incidental to or arising out of the exercise of banking powers and engages in the business of making commercial loans;

(10) "State" means any State of the United States or the District of Columbia; and

(11) the terms "bank", "bank holding company", "company", "control", and "subsidiary" as used in this Act shall have the same meanings assigned to those terms in the Bank Holding Company Act of 1956, and the terms "controlled" and "controlling" as used in

this Act shall be construed consistently with the term "control" as defined in section 2 of the Bank Holding Company Act of 1956.

ESTABLISHMENT OF NATIONAL BANKS

SEC. 2. Section 5146 of the Revised Statutes (12 U.S.C. 72) is amended by striking out the period at the end of the first sentence and adding the following new provision: ", except that in the case of an association which is a subsidiary or affiliate of a foreign bank, the Comptroller of the Currency may in his discretion waive the requirement of citizenship in the case of not more than a minority of the total number of directors.".

EDGE CORPORATIONS

SEC. 3. (a) The second sentence of the fourth paragraph of section 25(a) of the Federal Reserve Act (12 U.S.C. 614) is amended by striking out ", all of whom shall be citizens of the United States" after "to elect or appoint directors".

(b) The first sentence of the sixth paragraph of section 25(a) of the Federal Reserve Act (12 U.S.C. 615(a)) is amended by inserting "except with the approval of the Board of Governors of the Federal Reserve System," after "but in no event".

(c) The second proviso of the first sentence of the twelfth paragraph of section 25(a) of the Federal Reserve

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Act (12 U.S.C. 618) is amended by inserting ", except with the approval of the Board of Governors of the Federal Reserve System" after "That".

(d) The thirteenth paragraph of section 25(a) of the Federal Reserve Act (12 U.S.C. 619) is deleted and the following paragraph is inserted in lieu thereof:

"Except as otherwise provided in this section, a majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States. Notwithstanding any other provisions of this section, any foreign bank or any bank organized under the laws of the United States, any State of the United States, or the District of Columbia, the controlling interest in which is owned by a foreign bank, group of foreign banks, or institution organized under the laws of a foreign country which owns or controls a foreign bank may, with the prior approval of the Board of Governors of the Federal Reserve System and upon such terms and conditions and subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, own and hold 50 per centum or more of the shares of the

capital stock of any corporation organized under this section, and any such corporation shall be subject to the same provisions of law as any other corporation organized under this section. For the purposes of the preceding sentence of this paragraph the terms 'controls' and 'controlling interest' shall be construed consistently with the definition of 'control' in section 2 of the Bank Holding Company Act of 1956, and the term 'foreign bank' shall have the meaning assigned to it in the International Banking Act of 1976.".

FEDERAL BRANCHES AND AGENCIES

SEC. 4. (a) Except as provided in section 5, a foreign bank may, with the approval of the Comptroller, establish a Federal branch or agency in any State in which (1) it is not operating a branch or agency pursuant to State law and (2) the establishment of a branch or agency, as the case may be, by a foreign bank is not prohibited by State law.

(b) In establishing and operating a Federal branch or agency, a foreign bank shall be subject to such rules, regulations, and orders as the Comptroller considers appropriate to carry out this section, which shall include provisions for service of process and maintenance of branch and agency accounts separate from those of the parent bank. Except as otherwise specifically provided in this Act or in rules, regulation, or orders adopted by the Comptroller under this sec-

tion, operations of a foreign bank at a Federal branch or agency shall be conducted with the same rights and privileges as a national bank at the same location and shall be subject to all the same duties, restrictions, penalties, liabilities, conditions, and limitations that would apply under the National Bank Act to a national bank doing business at the same location, except that (1) the requirements of section 5240 of the Revised Statutes (12 U.S.C. 481) shall be met with respect to a Federal branch or agency if it is examined at least once in each calendar year; (2) any limitation or restriction based on the capital stock and surplus of a national bank shall be deemed to refer, as applied to a Federal branch or agency, to the dollar equivalent of the capital stock and surplus of the parent bank, and if the parent bank has more than one Federal branch or agency the accounts of all such branches and agencies shall be aggregated in determining compliance with the limitation; (3) a Federal branch or agency shall not be required to become a member bank, as that term is defined in section 1 of the Federal Reserve Act; and (4) a Federal branch or agency shall not be required to become an insured bank as that term is defined in section 3(h) of the Federal Deposit Insurance Act.

(c) In acting on any application to establish a Federal branch or agency, the Comptroller shall take into ac-

count the effects of the proposal on competition in the domestic and foreign commerce of the United States, the financial and managerial resources and future prospects of the applicant foreign bank and the branch or agency, and the convenience and needs of the community to be served.

(d) Notwithstanding any other provision of this section, a foreign bank shall not engage in the business of receiving deposits or exercising fiduciary powers at any Federal agency. A foreign bank may, however, maintain at a Federal agency for the account of others credit balances incidental to, or arising out of, the exercise of its lawful powers.

(e) No foreign bank may maintain both a Federal branch and a Federal agency in the same State.

(f) Any branch or agency operated by a foreign bank in a State pursuant to State law and any commercial lending company controlled by a foreign bank may be converted into a Federal branch or agency with the approval of the Comptroller. In the event of any conversion pursuant to this subsection, all of the liabilities of such foreign bank previously payable at the State branch or agency, or all of the liabilities of the commercial lending company, shall thereafter be payable by such foreign bank at the branch or agency established under this subsection.

(g) (1) Upon the opening of a Federal branch or

agency in any State and thereafter, a foreign bank, in addition to any deposit requirements imposed under section 6(a) of the International Banking Act of 1976, shall keep on deposit, in accordance with such rules and regulations as the Comptroller may prescribe, with a member bank designated by such foreign bank, dollar deposits or investment securities of the type that may be held by national banks for their own accounts pursuant to paragraph "Seventh" of section 5136 of the Revised Statutes, as amended, in an amount as hereinafter set forth. Such depository bank shall be located in the State where such branch or agency is located and shall be approved by the Comptroller if it is a national bank and by the Board of Governors of the Federal Reserve System if it is a State bank.

(2) The aggregate amount of deposited investment securities (calculated on the basis of principal amount or market value, whichever is lower) and dollar deposits for each branch or agency established and operating under this section shall be not less than the greater of (1) that amount of capital (but not surplus) which would be required of a national bank being organized at this location, or (2) 5 per centum of the total liabilities of such branch or agency, including acceptances, but excluding (A) accrued expenses, and (B) amounts due and other liabilities to offices, branches, agencies, and subsidiaries of such foreign bank. The Comp-

troller may require that the assets deposited pursuant to this subsection shall be maintained in such amounts as he may from time to time deem necessary or desirable, for the maintenance of a sound financial condition, the protection of depositors, and the public interest, but such additional amount shall in no event be greater than would be required to conform to generally accepted banking practices as manifested by banks in the area in which the branch or agency is located.

(3) The deposit shall be maintained with any such member bank pursuant to a deposit agreement in such form and containing such limitations and conditions as the Comptroller may prescribe. So long as it continues business in the ordinary course such foreign bank shall, however, be permitted to collect income on the securities and funds so deposited and from time to time examine and exchange such securities.

(h) A foreign bank with a Federal branch or agency operating in any State may (1) with the prior approval of the Comptroller establish and operate additional branches or agencies in the State in which such branch or agency is located on the same terms and conditions and subject to the same limitations and restrictions as are applicable to the establishment of branches by a national bank if the principal office of such national bank were located at the same place

as the initial branch or agency in such State of such foreign bank and (2) change the designation of its initial branch or agency to any other branch or agency subject to the same limitations and restrictions as are applicable to a change in the designation of the principal office of a national bank if such principal office were located at the same place as such initial branch or agency.

(i) Authority to operate a Federal branch or agency shall terminate when the parent foreign bank voluntarily relinquishes it or when such parent foreign bank is dissolved or its authority or existence is otherwise terminated or canceled in the country of its organization. If (1) at any time the Comptroller is of the opinion or has reasonable cause to believe that such foreign bank has violated or failed to comply with any of the provisions of this section or any of the rules, regulations, or orders of the Comptroller made pursuant to this section, or (2) a conservator is appointed for such foreign bank or a similar proceeding is initiated in the foreign bank's country of organization, the Comptroller shall have the power, after opportunity for hearing, to revoke the foreign bank's authority to operate a Federal branch or agency. The Comptroller may, in his discretion, waive such opportunity for hearing if he determines such waiver to be in the public interest. The Comptroller may restore

any such authority upon due proof of compliance with the provisions of this section and the rules, regulations, or orders of the Comptroller made pursuant to this section.

(j) Whenever the Comptroller revokes a foreign bank's authority to operate a Federal branch or agency or whenever any creditor of any such foreign bank shall have obtained a judgment against it arising out of a transaction with a Federal branch or agency in any court of record of the United States or any State of the United States and made application, accompanied by a certificate from the clerk of the court stating that such judgment has been rendered and has remained unpaid for the space of thirty days, or whenever the Comptroller shall become satisfied that such foreign bank is insolvent, he may, after due consideration of its affairs, in any such case, appoint a receiver who shall take possession of all the property and assets of such foreign bank in the United States and exercise the same rights, privileges, powers, and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller.

INTERSTATE BANKING OPERATIONS

SEC. 5. (a) Except as provided by subsection (b), no foreign bank may operate a branch, agency, commercial lending company subsidiary, or bank subsidiary outside its home State unless (1) in the case of a Federal or State

branch, the State is one in which it could operate a branch if it were a national bank located in its home State, (2) in the case of a State branch, agency, or commercial lending company, it is approved by the regulatory authority of the State in which such State branch, agency, or commercial lending company is to be operated, and (3) in the case of a Federal branch or agency, its operation is not prohibited by the State in which it is to be operated, and (4) in the case of a bank, its acquisition would be permissible under section 3 of the Bank Holding Company Act of 1956 if the foreign bank were a bank holding company the operations of whose banking subsidiaries were principally conducted in the foreign bank's home State.

(b) Unless its authority to do so is lawfully revoked otherwise than pursuant to this section, a foreign bank may continue to operate, outside its home State, any branch, agency, or commercial lending company subsidiary, or bank subsidiary whose operation was lawfully commenced, or whose establishment had been approved by the appropriate State authority, prior to May 1, 1976.

(c) For the purposes of this section, the home State of a foreign bank—

(1) which has no branch or subsidiary bank in the United States, but which has an agency or commercial lending company in one or more States, is whichever

of such States is determined by election of the bank, or, in default of such election, by the Board of Governors of the Federal Reserve System.

(2) which has a branch or subsidiary bank in one State only, is that State.

(3) which has a branch or subsidiary bank in more than one State, is whichever of such State is determined by election of the bank, or, in default of such election, by the Board of Governors of the Federal Reserve System.

An initial election under this subsection shall be made by means of a written declaration filed with the Board of Governors of the Federal Reserve System not more than one year after the date of enactment of this Act by the foreign bank concerned. After the home State of a foreign bank has been determined pursuant to this subsection, it may be changed only by the Board of Governors of the Federal Reserve System, either upon the application of the bank, or upon its own motion, for cause shown. Any foreign bank that does not maintain a branch, agency, or commercial lending company subsidiary, or that is not a bank holding company or a subsidiary thereof on the date of enactment of this Act, shall have its home State deemed to be the State in which it establishes its initial branch, agency, commercial

lending company subsidiary, or bank subsidiary (including any commercial lending company subsidiary or bank subsidiary acquired by a company of which it is a subsidiary) in the United States.

ACCEPTANCE OF DEPOSITS

SEC. 6. (a) No branch may accept deposits of United States citizens, residents, or businesses whose principal place of business is in the United States unless the branch maintains with the Federal Deposit Insurance Corporation a surety bond or pledge of assets. The amounts and types of such bonds and assets shall be determined under such rules as the Federal Deposit Insurance Corporation may prescribe for the purpose of protecting such deposits to the same extent and in the same amount that the deposits would be protected under the Federal Deposit Insurance Act if the branch were an insured bank under that Act. Liabilities to offices, branches, agencies, subsidiaries, and affiliates of a foreign bank shall not be treated as deposits in a branch of such foreign bank for the purposes of this section.

(b) This section does not apply to any bank organized under the laws of Puerto Rico, nor does it prohibit any branch or agency from maintaining credit balances for the account of customers incidental to, or arising out of, the exercise of its lawful powers.

(c) With respect to branches in existence on the date of enactment of this title, this section shall take effect January 1, 1977.

AUTHORITY OF FEDERAL RESERVE SYSTEM

SEC. 7. (a) (1) Except as provided in paragraphs (2) and (3) of this subsection, subsections (a), (b), (c), (d), (f), (g), (i), (j), (k), and the second sentence of subsection (e) of section 19 of the Federal Reserve Act shall apply to every branch and agency of a foreign bank and every commercial lending company controlled by one or more foreign banks or by one or more foreign companies that control a foreign bank in the same manner and to the same extent as if the branch, agency, or commercial lending company were a member bank as that term is defined in section 1 of the Federal Reserve Act; but the Board either by general or specific regulation or ruling may waive the minimum and maximum reserve ratios prescribed under section 19 of the Federal Reserve Act and may prescribe any other ratio, not more than 22 per centum, for any obligation of any such branch, agency, or commercial lending company that the Board may deem reasonable and appropriate to effectuate monetary policy objectives, taking into consideration the character of business conducted by such institutions and the need to maintain vigorous and fair competition between and among such institutions and member banks. The

Board may impose reserve requirements on branches, agencies, and commercial lending companies in such graduated manner as it deems reasonable and appropriate.

(2) A branch or agency shall be subject to this subsection only if (A) its parent foreign bank has total worldwide consolidated bank assets in excess of $1,000,000,000; (B) its parent foreign bank is controlled by a foreign company which owns or controls foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of $1,000,000,000; or (C) its parent foreign bank is controlled by a group of foreign companies that own or control foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of $1,000,000,000.

(3) A commercial lending company shall be subject to this subsection only if it is controlled (A) by a foreign bank that has total worldwide consolidated bank assets in excess of $1,000,000,000; (B) by a group of foreign banks that, in the aggregate, have total worldwide consolidated bank assets in excess of $1,000,000,000; (C) by a foreign company that owns or controls a foreign bank or banks that in the aggregate have total worldwide consolidated bank assets in excess of $1,000,000,000; or (D) by a group of foreign companies that own or control a foreign bank or banks that in the aggregate have total worldwide consolidated bank assets in excess of $1,000,000,000.

(b) Section 13 of the Federal Reserve Act is amended by adding at the end thereof the following new paragraph:

"Subject to such restrictions, limitations, and regulations as may be imposed by the Board of Governors of the Federal Reserve System, each Federal Reserve bank may receive deposits from, discount paper endorsed by, and make advances to any branch or agency of a foreign bank, and any commercial lending company in the same manner and to the same extent that it may exercise such powers with respect to a member bank if such branch, agency, or commercial lending company is maintaining reserves with such Reserve bank pursuant to section 7 of the International Banking Act of 1976. In exercising any such powers with respect to any such branch agency, or commercial lending company each Federal Reserve bank shall give due regard to account balances being maintained by such branch, agency, or commercial lending company with such Reserve bank and the proportion of any such branch, agency, or commercial lending company's assets being held as reserves under section 7 of the International Banking Act of 1976. For the purposes of this paragraph, the terms 'branch,' 'agency,' 'foreign bank,' and 'commercial lending company' shall have the same meanings assigned to them in section 1 of the International Banking Act of 1976.".

(c) Each branch or agency of a foreign bank, other

than a Federal branch or agency, and each commercial lending company controlled by one or more foreign banks or by one or more foreign companies that control a foreign bank, shall be subject to (1) paragraphs 7, 8, and 20 and the reporting requirements of paragraph 6 of section 9 of the Federal Reserve Act (12 U.S.C. 325, 326, 335, and 324), (2) subparagraph (a) of section 11 of the Federal Reserve Act (12 U.S.C. 248(a)), and (3) paragraph (5) of section 21 of the Federal Reserve Act (12 U.S.C. 483), to the same extent and in the same manner as if the branch, agency, or commercial lending company were a State member bank. In addition to any requirements imposed under section 4 of this Act, each Federal branch and agency shall be subject to subparagraph (a) of section 11 of the Federal Reserve Act (12 U.S.C. 248(a)) and to paragraph 5 of section 21 of the Federal Reserve Act (12 U.S.C. 483) to the same extent and in the same manner as if it were a member bank.

(d) Each branch or agency of a foreign bank established or operating pursuant to State law and each commercial lending company controlled by one or more foreign banks or by one or more foreign companies that control a foreign bank shall also be subject to such other duties, restrictions, conditions, limitations, or civil penalties or liabilities applicable under the Federal Reserve Act to a State member bank, which the Board, by regulation or order, determines

appropriate to insure the safety and soundness of banking operations, or to maintain competitive equality with State member banks, or to otherwise carry out the purposes of this Act except that (1) the Board may make such exemptions or exceptions from such duties, restrictions, conditions, limitations, or civil penalties or liabilities that it deems to be reasonable and appropriate in light of the different organizational structure or character of business conducted by such branches, agencies or commercial lending companies, and (2) any limitation or restriction based on the capital stock and surplus of a member bank shall be deemed to refer, as applied to a branch or agency, to the dollar equivalent of the capital stock and surplus of its parent foreign bank, and if the parent foreign bank has more than one branch or agency the accounts of all such branches and agencies, including Federal branches and agencies, shall be aggregated in determining compliance with the limitation or restriction.

(e) No foreign bank may, after the date of enactment of this Act, establish any branch or agency pursuant to State law and no foreign bank, group of foreign banks, or one or more foreign companies that control a foreign bank may acquire control of a commercial lending company without first obtaining approval of the Board of Governors of the Federal Reserve System. Whenever the Board receives an

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application from any such foreign bank, group of foreign banks, or foreign companies to establish a branch or agency, or to control a commercial lending company, the Board shall send a copy to the Secretary of State, the Secretary of the Treasury and the bank supervisory authority of the State where the branch or agency or commercial lending company is to be located and shall allow thirty days within which their views and recommendations may be submitted. In acting on any such application, the Board shall take into account the effects of the proposal on competition in the domestic and foreign commerce of the United States, the financial and managerial resources and future prospects of the applicant foreign bank, group of foreign banks, or one or more foreign companies and the branch, agency, or commercial lending company concerned, and the convenience and needs of the community to be served.

NONBANKING ACTIVITIES

SEC. 8. (a) Except as otherwise provided in this section (1) any foreign bank that maintains a branch or agency in a State, (2) any foreign bank or foreign company controlling a foreign bank that controls a commercial lending company organized under State law, and (3) any company of which any foreign bank or company referred to in (1) and (2) is a subsidiary shall be subject to the provisions of the Bank Holding Company Act of 1956, and to sections

105 and 106 of the Bank Holding Company Act Amendments of 1970 in the same manner and to the same extent that bank holding companies are subject thereto, except that any such foreign bank or company shall not by reason of this subsection be deemed a bank holding company for purposes of section 3 of the Bank Holding Company Act of 1956.

(b) After December 31, 1985, no foreign bank or other company to which subsection (a) applies on the date of enactment of this Act may retain direct or indirect ownership or control of any voting shares of any nonbanking company in the United States that it owned, controlled, or held with power to vote on the date of enactment of this Act or engage in any nonbanking activities in the United States in which it was engaged on such date unless authorized by subsection (c) of this section or by the Board of Governors of the Federal Reserve System under section 4 of the Bank Holding Company Act of 1956.

(c) After December 31, 1985, notwithstanding the prohibitions of subsection (b) of this section, a foreign bank or other company to which subsection (a) applies on the date of enactment of this Act may continue to engage in nonbanking activities in the United States in which directly or through an affiliate it was lawfully engaged on December 3, 1974 (or on a date subsequent to December 3, 1974, in the case of activities carried on as the result of the direct or

indirect acquisition, pursuant to a binding written contract entered into on or before December 3, 1974, of another company engaged in such activities at the time of acquisition) and may retain direct or indirect ownership or control of any voting shares of any nonbanking company that it (1) owned, controlled, or held with power to vote on December 3, 1974 (or on a date subsequent to December 3, 1974, if acquired by a written contract entered into on or before such date) and (2) that does not engage in any activities other than those in which such foreign bank, company, or affiliate may engage by virtue of this subsection or section 4 of the Bank Holding Company Act of 1956; except that the Board by order, after opportunity for hearing, may terminate the authority conferred by this subsection (c) on any such foreign bank or company to engage directly or through an affiliate in any activity otherwise permitted by this subsection (c) if it determines, having due regard to the purposes of this Act and the Bank Holding Company Act of 1956, that such action is necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices in the United States. Notwithstanding any exercise of the authority conferred upon the Board by this subsection (c), in the case of any such foreign bank or company that engages directly or indirectly through an affiliate in the business of underwrit-

ing, distributing, or otherwise buying or selling stocks, bonds, and other securities in the United States, such foreign bank or company may continue to engage in such business in the United States to the extent not prohibited for national banks by paragraph Seventh of section 5136 of the Revised Statutes of the United States (12 U.S.C. 24) and, in addition, may continue to engage in the United States in the business of underwriting and distributing securities to the extent necessary to participate in customary and usual syndicate activities in the United States by the managing underwriters or other underwriters on behalf of all syndicate members in connection with underwritings of such securities so long as the individual selling and distribution activities of any such foreign bank or company (whether direct or indirect through an affiliate) in connection with any such underwriting are confined to jurisdictions other than the United States. Nothing in this subsection (c) shall be construed to authorize any foreign bank or company referred to in this subsection (c), or any affiliate thereof, to engage in activities authorized by this subsection (c) through the acquisition, pursuant to a contract entered into after December 3, 1974, of any interest in or the assets of a going concern engaged in such activities. Any foreign bank or company that is authorized to engage in any activity pursuant to this subsection (c) but, as a result of action of the Board,

is required to terminate such activity may retain the ownership of control of shares in any company carrying on such activity for a period of two years from the date on which its authority was so terminated by the Board. As used in this subsection, the term "affiliate" shall mean any company more than 5 per centum of whose voting shares is directly or indirectly owned or controlled or held with power to vote by the specified foreign bank or company.

(d) Nothing in this section shall be construed to define a branch or agency of a foreign bank or a commercial lending company controlled by a foreign bank or foreign company that controls a foreign bank as a "bank" for the purposes of any provisions of the Bank Holding Company Act of 1956, or section 105 of the Bank Holding Company Act Amendments of 1970, except that any such branch, agency or commercial lending company subsidiary shall be deemed a "bank" or "banking subsidiary", as the case may be, for the purposes of applying the prohibitions of section 106 of the Bank Holding Company Act Amendments of 1970 and the exemptions provided in sections 4(c)(1), 4(c)(2), 4(c)(3), and 4(c)(4) of the Bank Holding Company Act of 1956 (12 U.S.C. 1843(c)(1), (2), (3), and (4)) to any foreign bank or other company to which subsection (a) applies.

GUIDELINES FOR FOREIGN BANK OPERATIONS

SEC. 9. (a) The Secretary of the Treasury in issuing guidelines under this section, and the Federal regulatory agencies in the administration of this Act, shall seek to achieve a parity of treatment for foreign banks, branches, agencies, and commercial lending companies relative to their domestic counterparts. It is the purpose of this Act to establish a basic statutory framework which, giving due consideration to the structure of our domestic monetary mechanisms and our national interests, will, to the extent practical, allow foreign banking institutions to have the same rights, duties and privileges and be subject to the same limitations, restrictions, or conditions as our domestic banking institutions. It is the intent of the Congress that this Act shall establish a pattern for equitable treatment which State regulators may adopt in their regulation of foreign banking institutions.

(b) The Secretary of the Treasury shall issue guidelines with respect to the banking operations of foreign banks, companies, and individuals in the United States, in order to assist Federal and State banking agencies in acting on applications by such foreign banks, companies, and individuals to establish branches or agencies of foreign banks in any State or to acquire interests in banks, corporations organized under sections 25 or 25(a) of the Federal Reserve Act, or commercial lending companies organized under State law.

(c) In issuing guidelines under this section, the Secretary of the Treasury shall endeavor to foster participation by foreign interests in international financial markets in the United States to the maximum extent consistent with maintenance of fair and vigorous competition in such markets, and with international economic policies of the United States, including policies relating to the balance of trade, the balance of payments, the international payments mechanism, and the negotiation and implementation of reciprocal arrangements with other countries to strengthen international trade.

(d) Whenever the Comptroller of the Currency receives an application to establish a national bank, Federal branch or agency, he shall send a copy to the Secretary of State, the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, and the bank supervisory authority of the State where the bank, branch, or agency is to be located. He shall wait thirty days for such officials to submit their views before acting on the application.

(e) Whenever a State bank supervisory authority receives an application to establish a branch or agency of a foreign bank or to organize a bank or a commercial lending company that will be controlled by a foreign company or group of foreign companies, he shall transmit a copy of such application to the Secretary of the Treasury, the Secretary of

State, and the Board of Governors of the Federal Reserve System, and shall allow a thirty-day period within which their views and recommendations may be submitted.

(f) Whenever the Board of Governors of the Federal Reserve System receives an application from a foreign company or group of foreign companies for approval under section 3 of the Bank Holding Company Act of 1956 (12 U.S.C. 1842) or receives an application from a foreign bank under sections 25 or 25 (a) of the Federal Reserve Act and whenever the responsible Federal banking agency under the Bank Merger Act (12 U.S.C. 1828 (c)) receives an application under that Act involving a bank that is controlled by a foreign company or group of foreign companies, it shall transmit a copy of such application to the Secretary of the Treasury and the Secretary of State and allow a thirty-day period within which their views and recommendations may be submitted.

(g) (1) Every branch or agency of a foreign bank and every commercial lending company controlled by one or more foreign banks or by one or more foreign companies that control a foreign bank shall conduct its operations in the United States in full compliance with provisions of any law of the United States or any State thereof which—

(A) prohibit discrimination against any individual or other person on the basis of the race, color, religion,

sex, or national origin of (i) such individual or other person or (ii) any officer, director, employee, or creditor of, or any owner of any interest in, such individual or other person; and

(B) apply to national banks or State-chartered banks doing business in the State in which such branch or agency or commercial lending company, as the case may be, is doing business.

(2) Notwithstanding any other provision of law, no application for a branch or agency under this Act shall be approved by the Comptroller and no application referred to in subsection (d), (e), or (f) of this section shall be approved by the Comptroller, the Board of Governors of the Federal Reserve System, or a State bank supervisory authority, as the case may be, unless the entity making the application has agreed to conduct all of its operations in the United States in full compliance with provisions of any law of the United States or any State thereof which—

(A) prohibit discrimination against individuals or other persons on the basis of the race, color, religion, sex, or national origin of (i) such individual or other person or (ii) any officer, director, employee, or creditor of, or any owner of any interest in, such individual or other person; and

(B) apply to national banks or State-chartered

banks doing business in the State in which the entity to be established is to do business.

REPRESENTATIVE OFFICES

SEC. 10. (a) Any foreign bank that maintains an office other than a branch or agency in any State shall register with the Secretary of the Treasury in accordance with rules prescribed by him, within one hundred and eighty days after the date of enactment of this Act or the date on which the office is established, whichever is later.

(b) This Act does not authorize the establishment of any such office in any State in contravention of State law.

CEASE-AND-DESIST ORDERS

SEC. 11. Subsection (b) of section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818(b)) is amended by adding at the end thereof the following new paragraphs:

"(4) This subsection and subsections (c), (d), (h), (i), (k), (l), (m), and (n) of this section shall apply to any branch, agency, and any commercial lending company controlled by one or more foreign banks or by one or more foreign companies that control a foreign bank, as those terms are defined in the International Banking Act of 1976, in the same manner as they apply to an insured bank, and for that purpose the appropriate Federal banking agency shall be the Comptroller of the Currency

with respect to a Federal branch or agency of a foreign bank and the Board of Governors of the Federal Reserve System with respect to a branch, agency, or commercial lending company subsidiary operating pursuant to State law.

"(5) This subsection and subsections (c), (d), (h), (i), (k), (l), (m), and (n) of this section shall apply to any foreign bank or company to which subsection (a) of section 8 of the International Banking Act of 1976 applies and to any subsidiary (other than a bank) of any such foreign bank or company in the same manner as they apply to a bank holding company and any subsidiary thereof (other than a bank) under subparagraph (3) of this subsection. For the purposes of this subparagraph, the term 'subsidiary' shall have the meaning assigned to it in section 2 of the Bank Holding Company Act of 1956.".

REGULATION AND ENFORCEMENT

SEC. 12. (a) The Comptroller, the Board, and the Secretary of the Treasury are authorized and empowered to issue such rules, regulations, and orders as each of them may deem necessary in order to perform their respective duties and functions under this Act and to administer and carry out the provisions and purposes of this Act and prevent evasions thereof.

(b) Compliance with the requirements imposed under this Act shall be enforced under section 8 of the Federal Deposit Insurance Act by the appropriate Federal banking agency as defined in that Act.

Passed the House of Representatives July 29, 1976.

Attest: EDMUND L. HENSHAW, JR.,

Clerk.

94TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 94–1193

INTERNATIONAL BANKING ACT OF 1976

MAY 26, 1976.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. REUSS, from the Committee on Banking, Currency and Housing, submitted the following

REPORT

together with

ADDITIONAL AND DISSENTING VIEWS

[To accompany H.R. 13876]

The Committee on Banking, Currency and Housing, to whom was referred the bill (H.R. 13876) to provide for Federal regulation of participation by foreign banks in domestic financial markets, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows: (page and line numbers refer to the bill as introduced):

Page 4, line 21, strike "subparagraph (a) of the fifth", and insert in lieu thereof "the sixth".

Page 5, line 1, strike "ninth" and insert in lieu thereof "twelfth".

Page 5, line 6, strike "tenth" and insert in lieu thereof "thirteenth".

Page 10, line 21, immediately after "A foreign bank" insert "with a Federal branch" and strike "with a Federal branch" after "or agency".

Page 13, line 8, insert "and" after "operated," and strike "or" after "(3)".

Page 13, line 9, strike "laws of a".

Page 22, line 8, insert "by reason of this subsection" after "company shall not".

Page 23, line 16, strike "1956, as amended;" and insert in lieu thereof "1956;".

Page 24, line 12, strike " 'investment securities' as" and all of lines 13 and 14 and insert in lieu thereof "securities".

Page 30, line 21, strike "this" and insert in lieu thereof "that".

HISTORY OF THE LEGISLATION

The substance of H.R. 13876 was introduced on April 13, 1976, as H.R. 13211 after three weeks of hearings in December 1975 and Janu-

ary 1976, and additional hearings in March 1976, on a financial reform bill which incorporated the substance of this bill. The Subcommittee on Financial Institutions Supervision, Regulation and Insurance met on May 12 and 17, 1976, and by a vote of 14 to 1 reported the bill to the full Committee. The Committee met in executive session on May 20, 1976, and by a vote of 29 to 3 ordered the bill favorably reported.

Summary of the Bill

The bill incorporates two principal policy objectives. The first objective is to provide a system of Federal regulation of foreign banking activities. Federal regulation is needed in view of the impact of foreign banking institutions on domestic financial markets and the domestic and foreign commerce of the United States, and because most foreign banks operate in the United States in more than one state. The second objective is to provide to the extent possible or appropriate equal treatment for foreign and domestic banks operating in the United States. The second goal is closely related to the first in that the absence of a framework for federal regulation of branches and agencies of foreign banks has created competitive advantages for foreign banks, while requirements in the National Bank Act and the Edge Act that boards of directors of these institutions be U.S. citizens has created a competitive disadvantage of foreign banks by closing two important chartering options.

In providing a Federal regulatory framework for foreign banks, the Committee has taken into account the fact that virtually all foreign bank operations currently are chartered and regulated by states. All but a very small number of domestic banks are subject to both Federal and state regulation because they are insured. But FDIC insurance has not been available to branches of foreign banks because these offices are part of the parent bank network which is beyond the scope of regulation and examination by the Federal Deposit Insurance Corporation. As a result, foreign banks can engage in the business of banking in more than one state without being subject to Federal laws and regulations which govern almost all U.S. banks.

The activities of foreign banks engaged in multistate operations are often interrelated and require a better coordination of regulation and supervision than is currently provided by the several state regulatory authorities acting separately. The choice of the Federal Reserve System as the Federal regulator appears to offer several advantages. The Federal Reserve already shares regulatory jurisdiction with state authorities over state member banks and operates within a regulatory framework which takes this dual jurisdiction into account. Thus, it would not be necessary to require conversions from state to federal charters or to undermine the state regulatory function. Concurrent regulation by both the Federal Reserve Board and the states would achieve the objective without disrupting the current system.

The choice of the Federal Reserve Board as Federal regulator also takes advantage of an existing regulatory framework for international banking and expertise in this area. The Board approves and regulates overseas branches of member banks and their Edge Act subsidiaries. As regulator of bank holding companies, it already has jurisdiction in approving the establishment of subsidiaries of foreign banks.

While recognizing that current regulation of foreign banks is in the hands of the states and providing a framework which will allow this to continue, the bill also provides the option of Federal chartering. Requirements in the National Bank Act and Edge Act are liberalized or waived to permit non-U.S. citizens to serve as directors of national banks and Edge Act corporations. In addition, the Comptroller is authorized to charter Federal branches and agencies of foreign banks which will be regulated and supervised like national banks to the extent appropriate.

The bill provides a substitute for deposit insurance. While extending FDIC insurance coverage to branches of foreign banks does not appear appropriate, there is a need to guarantee domestic deposits in these offices up to the amount of the guarantee for deposits in domestic banks and remove the competitive advantage enjoyed by foreign banks not required to pay insurance premiums. However, the bill takes into account differences in the nature of operations of branches of foreign banks. It does limit insurance to domestic deposits and provides that the FDIC administer the program separate from the domestic insurance fund.

Since 1970, U.S. banks have been required to maintain reserves against borrowings by domestic offices from foreign branches. Branches and agencies of foreign banks obtain the bulk of their liabilities from their foreign parents but are not required to maintain reserves against these liabilities with the Federal Reserve Board. This can provide cost advantages for foreign banks who lend to the same large, corporate customers as do large Federal Reserve member banks. And, as a result, domestic monetary policy has less influence on the lending activities of foreign banks than on those of domestic banks. Given the volatile nature of flows of funds to and from foreign sources through branches and agencies of foreign banks and the fact that almost 10 percent of all commercial and industrial loans by banks in the United States are made by foreign banks, the absence of direct influence on their activities may undermine the effectiveness of monetary policy. Finally, no other country allows foreign banks within its borders to engage in banking activities in its domestic currency outside the influence of the monetary authority.

For these reasons, the bill authorizes the Federal Reserve Board to impose reserve requirements on any and all liabilities of foreign bank branches, agencies and commercial lending companies to the extent reasonable and appropriate to effectuate monetary policy objectives and to maintain fair and vigorous competition between and among these institutions and member banks. Offices of foreign banks which control less than $1 billion of banking assets worldwide are exempt since they do not usually compete in the same banking markets as do member banks.

The National Bank Act prohibits national banks from branching outside the state in which their home offices are located and this prohibition applies to state member banks as well. State legislatures can pass laws allowing interstate branching by non-member banks but, to date, few states have contemplated such action and most of the banks which would be affected are too small to establish significant interstate operations. As the attached table 1 indicates, foreign banks do have significant multistate operations because their branches are not defined

as state banks by states or subject to Federal laws prohibiting interstate branching. Therefore, unlike domestic banks, foreign banks can accept domestic deposits in more than one state. This is a decisive advantage in that lending outside the home state can be funded with local deposits rather than by diverting funds from the home office. This provides enhanced opportunities for growth.

Following earlier legislative precedents against requiring divestitures of banking operations, the bill grandfathers existing inter-state banking activities. But it prohibits the establishment of new branches outside the home state unless national banks (and, therefore, state member banks) are allowed to engage in interstate branching. The home state of a foreign bank is defined as the state in which it accepts deposits. If it does not accept deposits, that is, if it has no branches or banking subsidiary and its activities are limited to operations permissible for agencies and commercial lending companies, then it may choose its home state from among those in which it conducts such operations. The intent is to restrict the acceptance of deposits to one state.

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TABLE 1.—FOREIGN BANKS WITH BANKING OFFICES IN MORE THAN ONE STATE

Parent bank	Deposits (millions)	World rank	U.S. bank operations: Branch	U.S. bank operations: Agency	U.S. bank operations: Subsidiary [1]	U.S. assets in New York, Illinois and California (thousands)
Algemene Bank Nederland	$12,694	47	New York, Illinois	California		$832,923
Banca Commerciale Italiana	17,701	25	do	do		939,699
Banco di Roma	12,196	52	New York	do	Illinois	315,662
Banco do Brazil	15,515	31	do	California (2)		581,866
Banco Nacional de Mexico	1,900	225		New York, California		8,011
Banco Real, Sao Paulo	609	524	New York	California		75,204
Bank Leumi le-Israel	5,919	96	Illinois	New York	New York	22,313
Bank of Montreal	16,900	26		New York, California	New York, California	1,053,845
Bank of Nova Scotia	12,307	51	Puerto Rico (3), Virgin Islands (5).	do	New York	910,472
Bank of Tokyo	15,314	33	Oregon, Washington	New York, California (2)	New York (4), California (22)	6,510,263
Banque Nationale de Paris	34,230	4	Illinois	California	California, New York	600,530
Barclay's Group, London	29,263	6	New York (2), Illinois, Massachusetts, Virgin Islands.	do	New York (24), California (37)	2,054,911
Canadian Imperial Bank of Commerce	18,758	21	Oregon, Washington	New York, California	New York, California (19)	1,005,350
Commerzbank, Duesseldorf	17,338	27	New York, Illinois			700,511
Compagnie Financiere de Suez [2]	3,872		do			105,538
Credit Lyonnais, Paris	28,500	8	do	California		2,570,053
Dai-Ichi Kangyo Bank, Tokyo	23,046	11		New York, California	Illinois	1,354,942
Daiwa Bank, Osaka	12,487	48		do		493,131
Dresdner Bank, Frankfurt	24,063	10	New York, Illinois	California		403,288
European-American Group [3]			Illinois	California (2)	New York (106) New York	3,517,480
Fuji Bank, Tokyo	20,181	17		New York, California	New York	1,636,924
Hokkaido Takushoku Bank, Japan	5,904	97		do		225,610
Hong Kong & Shanghai Banking Corp	7,297	77	New York, Illinois, Washington	California	California (9)	256,588
Industrial Bank of Japan	18,136	22	Illinois	New York		944,768
Korea Exchange Bank			do	New York, California	California	162,414
Kyowa Bank, Tokyo	9,820	62		do		514,321
Lloyds Bank Ltd., London	19,248	19	New York, Illinois		California (94)	1,993,419
Mitsubishi Bank, Tokyo	19,058	20		New York, California	California (3)	1,360,977
Mitsui Bank, Tokyo	13,269	42		do	California	996,980
National Bank of Greece	3,787	120	Illinois		New York (2)	234,469
National Westminster Bank, London	28,900	7	New York, Illinois	California		496,307
Philippine National Bank	936	389	New York	California, Hawaii		97,495
Royal Bank of Canada	20,646	15	Puerto Rico (5), Virgin Islands	New York, California	New York	2,111,186
Saitama Bank, Japan	7,311	76		do		326,956
Sanwa Bank, Osaka	18,074	23	Illinois	do	California (4)	1,741,952
Standard & Chartered Banking Group Ltd., London	10,853	60	Illinois, Washington, New York (2).	do	California (14)	629,172
Sumitomo Bank, Osaka	20,359	16	Illinois	do	California (19)	2,061,471

See footnotes at end of table.

TABLE 1.—FOREIGN BANKS WITH BANKING OFFICES IN MORE THAN ONE STATE—Continued

Parent bank	Deposits (millions)	World rank	U.S. bank operations: Branch	Agency	Subsidiary [1]	U.S. assets in New York, Illinois and California (thousands)
Swiss Bank Corp	$14,532	36	New York (2), Illinois	California		$1,990,517
Swiss Credit Bank	11,201	57	New York	do		713,073
Taiyo Kobe Bank, Japan	13,269	40	Washington	New York, California		868,170
Tokai Bank, Japan	14,281	38		do	California	1,267,100
Toronto Dominion Bank	10,913	59		do	New York, California (2)	1,274,686
Union Bank of Bavaria, Munich	16,158	30	New York, Illinois			127,966
Total, all banks	715,362		65 branches	63 agencies	30 subsidiaries	46,088,513

[1] Numbers in parentheses denote branches of banking subsidiaries.
[2] Companie Financiere de Suez is a holding companie for Banque de Suez et de l'Union des Mines (world rank 207) and Banque de l'Indochine (world rank 233), France.
[3] Owned by Amsterdam-Rotterdam Bank N.V., world rank 45, deposits 12,862; Creditanstalt-Bankverein, Vienna, world rank 102, deposits 4,955; Deutsche Bank A.G., Frankfurt, world rank 5, deposits 30,437; Midland Bank, Ltd., London, world rank 14, deposits 21,208; Societe Generale, Paris, world rank 9, deposits 27,239; Societe Generale de Banque S.A., Brussels, world rank 53, deposits 11,916.

Source: Federal Reserve, State bank supervisors and "American Bankers"; Compiled by committee staff.

Securities Business

This bill addresses the fundamental issue of the extent to which foreign banks should be permitted to continue to engage in the securities business in this country. It is perceived that foreign banks or their subsidiaries which engage in the securities business in this country have engaged in a business area in which our domestic banks are prohibited from entering. The Glass-Steagall Act was enacted for the purpose of separating commercial banking from investment banking, in part to insulate commercial banking from the risks involved in investment banking, and in part to remove the temptation to use the power of one line of business to cover mistakes or negligence in the conduct of the other. A domestic bank is clearly prohibited from acting as a dealer, i.e., acting as principal for its own account in a securities transaction and from acting, in any sense, as an underwriter for an offering of securities, other than certain government obligations. It is recognized that, at present, the ability of domestic banks to act as a broker or agent for a third party in a securities transaction is accepted administratively and judicially. The Committee does not wish to comment on this matter except to note that the practice exists.

Competition is healthy and we seek to preserve that competition between domestic and foreign banks. Nevertheless, we believe that foreign banks and their subsidiaries which engage in the securities business in this country have an unfair competitive advantage over our domestic banks. This bill grandfathers all non-banking activities in existence prior to December 3, 1974, except securities activities of foreign banks in the United States. Accordingly, this bill would prohibit, after December 13, 1985, any foreign bank or subsidiary thereof that was engaged in a securities activity on or before December 3, 1974, from engaging in any securities activities that national banks are prohibited from doing except that foreign banks may continue indefinitely to engage in the business of underwriting all securities and any such activities that are effected on behalf of all participants in the underwriting syndicate. Foreign banks, after 1985, may, of course, continue to see and distribute securities outside this country. The current extent of securities activities by foreign banks is shown in Table 2.

It appears that a compromise solution to a very difficult issue has been achieved in this bill. While it has been argued that to disallow a foreign subsidiary from selling and distributing securities in this country's capital markets is to effectively discourage the subsidiary's participation in underwriting activities as well, no clear evidence was presented in support of this assertion.

TABLE 2—U.S. SECURITIES OPERATIONS OF FOREIGN BANKS WITH BANKING OFFICES IN THE UNITED STATES

Parent bank	Deposits (millions)	World rank	U.S. securities firms	Branch	Agency	Subsidiary	Total U.S. bank assets (thousands)
Algemene Bank, Nederland	$12,694	47	ABD Securities Corp	New York; Illinois	California		$832,923
Dresdner Bank, Frankfurt	24,063	10	do	do	do		403,288
Swiss Bank Corp	14,532	36	Basle Securities Corp	New York (2); Illinois.	do		1,990,517
Daiwa Bank, Tokyo	12,487	48	Daiwa Securities Co., America		New York; California		493,131
Banco di Roma, Rome	12,196	52	Europartners Securities Corp	New York	California	Illinois	315,662
Commerzbank, Frankfurt	17,338	27	do	New York; Illinois			700,511
Credit Lyonnais, Paris	28,500	8	do	do	California		2,570,053
Westdeutsche Landesbank Gironzentrale [1]	22,801	12	RWS Securities Services	New York			
Amsterdam-Rotterdam Bank, N.V	12,862	45	SoGen Swiss International [2]	Illinois	California (2)	1 bank and 1 investment in New York.	3,517,480
Societe Generale, Paris	27,239	9	do.[2]	do	do	do	3,517,480
Societe Generale de Banque S.A. Brussels	11,916	53	do.[2]	do	do	do	3,517,480
Companie Financiere de Suez [3]	3,872		Suez American	New York; Chicago			105,538
Swiss Credit Bank	11,201	57	White, Weld & Co.,[4] Swiss American Securities.	New York	California		713,073
Deutsche Bank, Frankfurt [1]	30,437	5	UBS–DB Corp				
Union Bank of Switzerland	14,402	37	do			New York	999,628
Fuji Bank of Japan	20,181	17	Yaimacha International (America) Inc		New York; California	do	1,636,924
Industrial Bank of Japan	18,136	22	do		do	do	944,768
Mitsubishi Bank	19,058	20	do		do	California (3)	1,360,977
Banca Commerciale Italiana	17,701	25	Shields Model Roland, Inc.[4]	New York; Illinois	California		939,699

[1] Other information not available from State bank departments as of June 30, 1975.

[2] Stockholders of European American Bank & Trust Co., New York. Assets and banking operations listed are for that bank.

[3] This is a holding company for Banque de Suez et de l'Union des Mines (world rank 207) and Banque de J'idonchine (world rank 233).

[4] Minority interests.

Source: Federal Reserve, State Bank Supervisors and "American Banker"; compiled by committee staff.

In recognition of the duality of our banking system, the bill requires the Comptroller of the Currency, upon receipt of an application to establish a national bank, to send a copy to the bank supervisor of the state wherein the bank, branch or agency is to be located, as well as to the Secretaries of State and Treasury and to the Federal Reserve System. Likewise, the state authority, upon receipt of an application to establish a foreign bank, branch or agency within that state, is required to send a copy to the identical Federal authorities as is the Comptroller. Both the Comptroller and the state authority shall wait a 30-day period in order for those notified parties to express their views on such application. Nothing in this bill, however, gives the Comptroller or the state authority veto power over an application received by the other entity.

We acknowledge that many, if not all, foreign banks which are engaged in business in this country, particularly those which engage in deposit-taking from U.S. citizens, abide voluntarily with the rules and regulations that govern our domestic banks. We hold that the principle of non-discrimination on the basis of religion, race, creed, national origin or sex should be applied to foreign banks doing business in this country and underscore the avoidance in fact of discriminatory practices by all banks doing business in this country.

The Secretary of the Treasury is required to promulgate the guidelines pursuant to this bill. Such guidelines, while keeping in mind the interest to achieve a parity of treatment for foreign banks relative to domestic banks, shall endeavor to "foster participation by foreign interests in international financial markets in the United States . . ." consistent with maintaining fair competition. It is the intent of this bill, not to reduce the relative rights of foreign banks, but to expressly encourage their continued vigorous activity in this country. Section 9(a) clearly sets forth this intent.

As stated above, the objectives of this legislation are to provide Federal regulation of foreign banks and to insure equal treatment for foreign and domestic banks operating in the United States. But there is recognition of the fact that the same regulatory structure for foreign and domestic banks will not result in equal treatment and that discretion is needed to devise a regulatory framework which is appropriate to the actual operations and status of foreign banking institutions. The intent of the bill is to ensure that foreign banking activities in the United States conform more closely to activities permissible for domestic banks without dismantling or disrupting existing operations more than necessary to meet the objective. Resolutions involving the more controversial issues—interstate branching, the commingling of commercial and investment banking activities and the imposition of compulsory Federal Reserve requirements—should be viewed only as efforts to deal with special situations related to the unique status or operations of foreign banks. There is no intent to use the legislation as a means for setting precedents or policies affecting the domestic banking system.

NONDISCRIMINATION

During the consideration of section 7 of the bill by your Committee, an amendment was offered by Mr. Blanchard which would have required an affirmative agreement by the applicant for approval of any

domestic operation by a foreign bank that the applicant would refrain from and prohibit discrimination on the basis of religion, race, national origin or sex. By an evenly divided vote, the amendment was not agreed to.

The princpal argument advanced by those Committee members who opposed the Blanchard amendment was the absence of any similar specific statutory requirement on domestic banks. In its deliberations, the Committee reaffirms the nondiscriminatory policy stated in section 3(5) of the Export Administration Act of 1969 (50 U.S.C. App. 2402 (5)), and notes with approval the actions taken by the Federal banking regulatory authorities to prohibit domestic banks from engaging in precisely the type of discrimination described in the proposed amendment. Such action can and should be taken under the Civil Rights Act and under the Constitution in implementation of the agencies' general regulatory and supervisory authority over the banking industry. Section 9(a) of the bill makes it clear that any foreign institution seeking to do business in this country must abide by the same rules as its domestic competitors. Your Committee expects alert and rigorous enforcement by banking regulatory agencies of both the spirit and letter of relevant regulations and will give prompt consideration to the need for additional legislative authority, applicable to all banking institutions, domestic as well as foreign, should there be evidence of laxity or a capricious abuse of agency discretion.

Statements Required in Accordance With House Rules

In accordance with clauses 2(l)(2)(B), 2(l)(3), and 2(l)(4) of Rule XI and clause 7(a) of Rule XIII of the Rules of the House of Representatives, the following statements are made:

Committee Vote (Rule XI, clause 2(l)(2)(B)): H.R. 13876 was reported out of Committee by a rollcall vote on May 20, 1976, with 29 votes cast for and 3 votes cast against reporting the bill.

Oversight Findings (Rule XI, clause 2(l)(3)(A) and Rule X, clause 2(b)(1)): The Committee has held hearings on the subject matter contained in H.R. 13876 and based upon the evidence presented concludes that the provisions of H.R. 13876, as amended, are necessary to provide for Federal regulation of participation by foreign banks in domestic financial markets.

Estimate of Costs to be Incurred (Rule XIII, clause 7(a)): The Committee estimates that enactment of H.R. 13876 will result in no additional budgetary expenditures.

Congressional Budget Office: No estimate or comparison has been prepared by the Director of the Congressional Budget Office relative to the provisions of H.R. 13876.

Inflationary Impact Statement (Rule XI, clause 2(l)(4)): The Committee has concluded that the enactment of H.R. 13876 will not result in any inflationary impact on prices and costs in the operation of the national economy.

Detailed Analysis of the Bill

Section 1. Short title and definitions

Section 1(a) provides that the bill may be cited as the "International Banking Act of 1976".

Section 1(b)(1) defines an "agency" as "any office or any place of business of a foreign bank located in any State of the United States at which credit balances are maintained incidental to or arising out of the exercise of commercial banking powers, checks are paid or money is lent but at which deposits may not be accepted from citizens or residents of the United States". It is thus distinguished from a "branch", defined in paragraph (3) of this subsection as "any office or any place of business of a foreign bank located in any State of the United States at which deposits are received and checks are paid or money is lent."

Paragraphs (5) and (6) define "Federal agency" and "Federal branch" respectively as an agency or branch of a foreign bank established and operating under section 4, which provides criteria and authority for approval by the Comptroller of the Currency.

Paragraph (7) defines "foreign bank" as—

> any institution that (1) is organized under the laws of a foreign country, a territory of the United States, Puerto Rico, Guam, American Samoa, or the Virgin Islands, and (2) either (A) principally conducts its banking business outside the United States or (B) is a subsidiary, as that term is defined in the Bank Holding Company Act of 1956, of any institution which, on a consolidated basis, principally conducts its banking business outside the United States. For the purposes of this Act, the term "foreign bank" includes, without limitation, foreign commercial banks, foreign merchant banks and other foreign institutions that engage in banking activities usual in connection with the business of banking in the countries where such foreign institutions are organized or operating.

Paragraph (8) defines "foreign country" as "any country other than the United States, [including] any colony, dependency, or possession of any such country."

Paragraph (9) defines "commercial lending company" as "any institution, other than a bank or an organization operating under section 25 of the Federal Reserve Act, organized under the laws of any State of the United States or the District of Columbia which maintains credit balances incidental to or arising out of the exercise of commercial banking powers and engages in the business of making commercial loans". This definition is intended to cover so-called "investment companies" which are foreign bank subsidiaries chartered under New York State law. Because the term "investment company" has meanings under Federal tax and securities laws which are different from the meaning defined in paragraph (9), the term commercial lending company was chosen to avoid confusion.

Paragraph (10) defines "State" as "any State of the United States or the District of Columbia".

Paragraph (11) provides that—

> the terms "bank", "bank holding company", "company", "control", and "subsidiary" as used in this Act shall have the same meanings assigned to those terms in the Bank Holding Company Act of 1956, and the terms "controlled" and "controlling" as used in this Act shall be construed consistently

with the term "control" as defined in section 2 of the Bank Holding Company Act of 1956.

Paragraphs (2) and (4) identify "Board" and "Comptroller" as the Board of Governors of the Federal Reserve System and the Comptroller of the Currency, respectively.

Section 2. Establishment of national banks

The Comptroller of the Currency is authorized to waive the requirement of the National Bank Act that all directors of a national bank be United States citizens and require that only a majority of the directors be United States citizens when the bank is controlled by a foreign bank.

Section 3. Edge Corporation

Subsection (a) of this section amends the requirement that all of the directors of so-called Edge Act Corporations be United States Citizens. Read literally, the amendment applies to all such corporations, regardless of whether or not there is any foreign bank involvement, but your Committee expects the Board to exercise its administrative authority to carry out the intent of the amendment, which is to accommodate the reasonable needs of foreign banking institutions rather than to abandon the long standing policy that Edge Act subsidiaries of American banks be American citizens.

The sixth paragraph of section 25(a) of the Federal Reserve Act (12 U.S.C. 615(a)) prohibits Edge Act Corporations from issuing debentures, bonds, and promissory notes in an aggregate amount exceeding ten times their capital stock and surplus. Section 3(b) of the bill amends this provision to permit this limit to be exceeded with the approval of the Board of Governors of the Federal Reserve System. A similar limitation in the twelfth paragraph of section 25(a) of the Federal Reserve Act (12 U.S.C. 618) is similarly amended by subsection (c) of this bill.

The thirteenth paragraph of section 25(a) of the Federal Reserve Act (12 U.S.C. 619), as presently in effect, requires that a majority of the stock of Edge Act Corporations must at all times be owned by citizens of the United States or by domestic corporations controlled by United States citizens. Section 3(d) of the bill authorizes the Federal Reserve Board to permit a majority of the shares of such corporations to be held by foreign banks or their subsidiaries.

In this section and elsewhere in the bill, references to paragraphs of the Federal Reserve Act refer to such paragraphs as designed in the compilation of the Federal Reserve Act as amended through 1974 compiled under the direction of the Board of Governors of the Federal Reserve System in its legal division.

Section 4. Federal branches and agencies

Subsection (a) provides that the Comptroller is authorized to approve the establishment of a Federal branch or agency by a foreign bank in a state where it is not already operating a branch or agency under state law and where state law does not prohibit the establishment of a foreign branch or agency. As a practical matter, this subsection, read in conjunction with section 5 of the bill, means that new branches cannot be established outside the "home state" of a foreign

bank, but that foreign banks will have the same rights to establish agencies outside their home state as do domestic banks.

Subsection (b) provides that a foreign bank establishing and operating a Federal branch or agency shall be subject to rules and regulations which the Comptroller considers appropriate to carry out the purposes of the section, including the maintenance of branch and agency accounts separate from those of the parent bank. Branch and agency operations shall be subject to the same rights and privileges as a national bank except that a Federal branch or agency need be examined only once in a calendar year, and limitations and restrictions based on capital will refer to the capital of the parent bank. Although branches and agencies are not required to become formal members of the Federal Reserve System or to obtain FDIC insurance, other provisions of the bill provide for the maintenance of reserves against deposits as well as protection for depositors in the form of deposits of cash or securities with other banks approved by the Comptroller or the Federal Reserve Board.

Subsection (c) provides that the criteria for approval of Federal branches and agencies shall include the financial and managerial resources and prospects of the applicant foreign bank and branch, the convenience and needs of the community, and the effects on competition in the domestic and foreign commerce of the United States.

Subsection (d) permits a Federal agency to accept credit balances, but prohibits the acceptance of deposits and the exercise of fiduciary powers by Federal agencies. Such agencies may thus perform functions similar to those of the out-of-state loan production offices maintained by large domestic national banks.

Subsection (e) prohibits the maintenance of both a Federal branch and a Federal agency in the same State.

Subsection (f) permits a branch, agency or commercial lending company operated by a foreign bank in a state pursuant to state law to convert to a Federal branch or agency with the approval of the Comptroller.

Subsection (g) requires that Federal branches and agencies deposit funds or investment securities with a member bank in such an amount as to meet standards applicable to national banks with respect to capital requirements or, at the discretion of the Comptroller, to assure the financial soundness of the institution.

Subsection (h) makes clear that a foreign bank establishing Federal branches and agencies within a state would have the same rights to increase its offices as a national bank in that state.

Subsection (i) permits the Comptroller to revoke a foreign bank's authority to operate a Federal branch or agency after a conservator is appointed for a foreign bank or a similar proceeding is instituted in the foreign bank's country of organization.

Subsection (j) authorizes the Comptroller to appoint a receiver when the authority of the branch or agency to operate has been revoked.

Section 5. Interstate banking operations

Subsection (a) prohibits interstate branching by foreign banks unless national banks are accorded the same privilege. The foreign banks which compete in the American market are invariably of such great

size that, if they were headquartered in the United States, practical considerations would compel them to be members of the Federal Reserve System. If membership were achieved by way of a national bank charter, the National Banking Act would directly prohibit them from establishing branches outside their home state (section 5155 of the Revised Statutes, 12 U.S.C. 36). If they were state-chartered member banks, the third paragraph of section 9 of the Federal Reserve Act (12 U.S.C. 321) would impose upon them the same prohibition against interstate branching as is applicable to national banks. While existing law does technically permit interstate branching by nonmember insured banks if permitted by state law, such banks are not in a competitive class with foreign banks operating in the United States, and the extension of this privilege to huge foreign enterprises while withholding it from their American competitors would clearly be inequitable.

This subsection further provides that agency or commercial lending company operations outside the home state elected by a foreign bank require the approval of the state in which it desires to operate. In states where branches and agencies of foreign banks are prohibited, Federal charters cannot be issued.

Under subsection (b), multistate operations of foreign banks established or approved before May 1, 1976, are permanently grandfathered.

Subsection (c) sets forth the rules for determining the home state of a foreign bank. If it has deposit-taking operations (that is, a branch or a subsidiary bank) in only one state, that state is its home state. If it has deposit-taking operations in more than one state, it may elect its home state, but only from among those states in which it has such operations. If it has no deposit-taking operations, then it may choose as its home state any state in which it has an agency or a commercial lending company subsidiary.

For good cause shown, the Board of Governors of the Federal Reserve System may require or approve a change in the home state of a foreign bank.

Section 6. Acceptance of deposits

Subsection (a) requires that any foreign branch which accepts deposits of United States citizens, residents, or businesses whose principal place of business is in the United States must maintain with the FDIC a surety bond or pledge of assets in amounts determined by the FDIC for the purpose of protecting such deposits to the same extent and in the same amount that they would be protected in an insured bank.

Subsection (b) exempts from the requirements of subsection (a) banks organized under the laws of Puerto Rico and makes clear that a branch or agency may maintain credit balances for customers related to banking transactions.

Subsection (c) provides that the effective date of this section is January 1, 1977.

Section 7. Authority of the Federal Reserve System

Subsection (a) authorizes the Federal Reserve Board to make branches and agencies and commercial lending companies controlled by foreign banks subject to reserve requirements and interest rate

controls imposed on Federal Reserve member banks. The authorization permits the Federal Reserve Board to impose such requirements in any way which it deems reasonable and appropriate to obtain monetary policy objectives and maintain fair competition. Foreign bank offices are not subject to reserve requirements if the worldwide banking assets of the parent do not exceed $1 billion.

Under subsection (b), the Federal Reserve Board is granted the authority to prescribe rules and regulations permitting access of foreign branches, agencies and commercial lending companies to the clearing, discount and advance facilities of the Federal Reserve system, and limiting access to the discount window in relation to the size of account balances maintained as reserves.

Subsection (c) imposes the same reporting and examination requirements on branches, agencies and commercial lending companies chartered under State law as are imposed on State member banks of the Federal Reserve System.

Subsection (d) authorizes the Federal Reserve Board to impose appropriate regulatory requirements on state-chartered branches, agencies and commercial lending companies consistent with those imposed under the Federal Reserve Act on State member banks, except that limitations and restrictions based on capital will refer to the capital of the parent bank.

Subsection (e) provides that the Federal Reserve Board must approve the establishment of any branch, agency or commercial lending company pursuant to state law, provides a 30-day waiting period for acting on such applications, and establishes the same criteria for approval that are required to be used by the Comptroller of the Currency in approving Federal branches and agencies.

Section 8. Nonbanking activities

Subsection (a) of this section applies, with the exceptions and qualifications noted below, the restrictions of the Bank Holding Company Act of 1956 to the nonbanking operations in the United States of foreign banks which control branches, agencies, or commercial lending companies in the United States.

Subsection (b) of this section applies to shares and activities acquired or commenced after December 3, 1974, and prior to the date of enactment of the bill. It requires that any foreign bank or other company to which subsection (a) applies must divest itself of, or terminate, such shares or activities not later than December 31, 1985, unless they are permissible under the general provisions of section 4 of the Bank Holding Company Act of 1956.

Subsection (c) applies to those nonbanking shares and activities which were acquired or commenced prior to December 4, 1974. Except as noted below with respect to the securities business, such shares and activities are indefinitely grandfathered, subject to the power of the Federal Reserve Board to terminate the authority to hold such shares or carry on such activities if the Board determines, "having due regard to the purposes of this Act and the Bank Holding Company Act of 1956, that such action is necessary to prevent undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices in the United States."

With respect to the securities businesses of foreign banks and their subsidiaries, section 8(c) of the bill allows them to carry on activities

permissible for national banks under paragraph "seventh" of section 5136 of the Revised Statutes (12 U.S.C. 24). Although the bill speaks in terms of their being permitted "to engage in such business in the United States to the extent not prohibited for national banks," such banks are prohibited from engaging in the securities business to the extent not permitted by section 5136, and it is the intent of your Committee that the phrase "to the extent not prohibited" be construed to mean no more and no less than "to the extent permitted".

Subsection (c) goes on to permit the grandfathered companies to—

> continue to engage in the United States in the business of underwriting and distributing securities to the extent necessary to participate in customary and usual syndicate activities in the United States by the managing underwriters or other underwriters on behalf of all syndicate members in connection with underwritings of such securities so long as the individual selling and distribution activities of any such foreign bank or company (whether direct or indirect through an affiliate) in connection with any such underwriting are confined to jurisdictions other than the United States.

Your Committee is aware that questions will inevitably arise as to the permissible scope of the grandfathered activities. Your Committee expects full and free communication and close cooperation to be carried on between the Federal Reserve Board and the Securities and Exchange Commission in the administration and enforcement of this section of the bill. The general policy of the bill is clearly to avoid giving foreign institutions competitive advantages in the United States, whether over banks because of the foreign institutions' investment banking services, or over securities firms because of the foreign institutions' commercial banking powers.

Subsection (d) of section 8 is a technical provision to reconcile the definitions and usages of the terms "bank" and "banking subsidiary" in a manner to permit the intent of the legislation to be carried out.

Section 9. Guidelines for foreign bank operations

Subsection (a) of this section makes explicit the legislative intention to assure parity of treatment between domestic and foreign banks, and to establish a pattern for equitable treatment which state authorities may adopt in their regulation of foreign banking institutions.

Subsection (b) requires the Secretary of the Treasury to establish guidelines for foreign owned banking operations in the United States in order to assist Federal and State banking agencies in acting upon their applications under this and other Acts.

Subsection (c) sets forth the general policy objective which the guidelines issued lnder subsection (b) should seek to attain. That objective is to—

> foster participation by foreign interests in international financial markets in the United States to the maximum extent consistent with maintenance of fair and vigorous competition in such markets, and with international economic policies of the United States, including policies relating to the balance of trade, the balance of payments, the international payments mechanism, and the negotiation and implementation of recip-

rocal arrangements with other countries to strengthen international trade.

Subsection (d) requires that the Comptroller of the Currency send to other agencies copies of any applications he receives from foreign interests to establish a subsidiary bank, or a branch or agency. Such copies are to go to the Secretary of State, the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, and the bank supervisory authority of the State where the facility is to be located. Before acting on such application, the Comptroller must allow these agencies 30 days in which to submit their views.

Subsection (e) similarly requires State bank supervisory authorities to send copies of any such applications submitted to them to the Secretary of the Treasury, the Secretary of State, and the Board of Governors of the Federal Reserve System, and to allow those officials 30 days in which to submit their views and recommendations. Finally, subsection (f) requires the transmission to the Secretary of the Treasury and the Secretary of State of copies of applications from foreign companies or groups of foreign companies for approval under section 3 of the Bank Holding Company Act of 1956, sections 25 or 25(a) of the Federal Reserve Act, or section 18(c) of the Federal Deposit Insurance Act. Thirty days are to be allowed for the submission of their views and recommendations.

Section 10. Representative offices

This section requires that any offices other than branches or agencies maintained by any foreign bank in any state shall be registered with the Secretary of the Treasury, and makes clear that the requirement of such registration does not authorize the establishment of any such office in any State in contravention of State law.

Section 11. Cease-and-desist orders

This section confers the enforcement powers provided in section 8 of the Federal Deposit Insurance Act on the Comptroller of the Currency and the Board of Governors of the Federal Reserve System with respect to Federal branches and agencies and with respect to branches, agencies, and commercial lending company subsidiaries operating pursuant to State law, respectively. It also confers on the Federal Reserve Board enforcement authority with respect to nonbanking subsidiaries.

Section 12. Regulation and enforcement

This section authorizes the Comptroller, the Federal Reserve Board, and the Secretary of the Treasury to issue rules and regulations to carry out the purposes of the Act, and provides that compliance may be enforced under section 8 of the Federal Deposit Insurance Act.

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

Section 5146 of the Revised Statutes

Sec. 5146. Every director must during his whole term of service, be a citizen of the United States, and at least two-thirds of the directors must have resided in the State, Territory, or District in which the association is located, or within one hundred miles of the location of the office of the association, for at least one year immediately preceding their election, and must be residents of such State or within a one-hundred-mile territory of the location of the association during their continuance in office, *except that in the case of an association which is a subsidiary or affiliate of a foreign bank, the Comptroller of the Currency may in his discretion waive the requirement of citizenship in the case of not more than a minority of the total number of directors.* Every director must own in his own right shares of the capital stock of the association of which he is a director the aggregate par value of which shall not be less than $1,000, unless the capital of the bank shall not exceed $25,000 in which case he must own in his own right shares of such capital stock the aggregate par value of which shall not be less than $500. Any director who ceases to be the owner of the required number of shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place.

Federal Reserve Act

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POWERS OF FEDERAL RESERVE BANKS

Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this Act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Board of Governors of the Federal Reserve System, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or

otherwise; but no such charges shall be made against the Federal reserve banks.

Subject to such restrictions, limitations, and regulations as may be imposed by the Board of Governors of the Federal Reserve System, each Federal Reserve bank may receive deposits from, discount paper endorsed by, and make advances to any branch or agency of a foreign bank, and any commercial lending company in the same manner and to the same extent that it may exercise such powers with respect to a member bank if such branch, agency, or commercial lending company is maintaining reserves with such Reserve bank pursuant to section 7 of the International Banking Act of 1976. In exercising any such powers with respect to any such branch agency, or commercial lending company each Federal Reserve bank shall give due regard to account balances being maintained by such branch, agency, or commercial lending company with such Reserve bank and the proportion of any such branch, agency, or commercial lending company's assets being held as reserves under section 7 of the International Banking Act of 1976. For the purposes of this paragraph, the terms "branch," "agency," "foreign bank," and "commercial lending company" shall have the same meanings assigned to them in section 1 of the International Banking Act of 1976.

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BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS

SEC. 25. (a) * * *

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The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be forwarded to the Board of Governors of the Federal Reserve System to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate, and after the Board of Governors of the Federal Reserve System has approved the same and issued a permit to begin business, the association shall become and be a body corporate, and as such and in the name designated therein shall have power to adopt and use a corporate seal, which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors [, all of whom shall be citizens of the United States]; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Board of Governors of the Federal Reserve System regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees

appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

Each corporation so organized shall have power, under such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe:

(a) To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell, with or without its indorsement of guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Board of Governors of the Federal Reserve System may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Board of Governors of the Federal Reserve System may prescribe, but in no event *except with the approval of the Board of Governors of the Federal Reserve System*, having liabilities outstanding thereon at any one time exceeding ten times its capital stock and surplus; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Board of Governors of the Federal Reserve System, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Board of Governors of the Federal Reserve System, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the Board of Governors of the Federal Reserve System may prescribe, but in no event less than 10 per centum of its deposits.

* * * * * * *

No corporation shall be organized under the provisions of this section with a capital stock of less than $2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business, and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in: *Provided, however*, That whenever $2,000,000 of the capital stock of any corporation is paid in the remainder of the corporation's capital stock or any unpaid part of such remainder may, with the consent of the Board of Governors of the Federal Reserve System and sub-

ject to such regulations and conditions as it may prescribe, be paid in upon call from the board of directors; such unpaid subscriptions, however, to be included in the maximum of 10 per centum of the national bank's capital and surplus which a national bank is permitted under the provisions of this Act to hold in stock of corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended: *Provided further*, That, *except with the approval of the Board of Governors of the Federal Reserve System* no such corporation shall have liabilities outstanding at any one time upon its debentures, bonds, and promisory notes in excess of ten times its paid-in capital and surplus. The capital stock of any such corporation may be increased at any time, with the approval of the Boards of Governors of the Federal Reserve System, by a vote of two-thirds of its shareholders or by unanimous consent in writing of the shareholders without a meeting and without a formal vote, but any such increase of capital shall be fully paid in within ninety days after such approval; and may be reduced in like manner, provided that in no event shall it be less than $2,000,000. No corporation, except as herein provided, shall during the time it shall continue its operations, withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended shall not exceed 10 per centum of the subscribing bank's capital and surplus.

[A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States.]

Except as otherwise provided in this section, a majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States. Notwithstanding any other provisions of this section, any foreign bank or any bank organized under the laws of the United States, any State of the United States, or the District of Columbia, the controlling interest in which is owned by a foreign bank, group of foreign banks, or institution organized under the laws of a foreign country which owns or controls a foreign bank may, with the prior approval of the Board of Governors of the Federal Reserve System and upon such terms and conditions and subject to such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe, own and hold 50 per centum or more of the shares of the capital stock of any corporation organized under this section, and any such corporation shall be subject to the same provisions of law as any other corporation organized under this section. For the purposes of this paragraph the terms "controls" and "controlling interest" shall be construed consistently with

the definition of "control" in section 2 of the Bank Holding Company Act of 1956, and the term "foreign bank" shall have the meaning assigned to it in the International Banking Act of 1976.

FEDERAL DEPOSIT INSURANCE ACT

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SEC. 8. (a) * * *

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(b)(1) If, in the opinion of the appropriate Federal banking agency, any insured bank or bank which has insured deposits is engaging or has engaged, or the agency has reasonable cause to believe that the bank is about to engage, in an unsafe or unsound practice in conducting the business of such bank, or is violating or has violated, or the agency has reasonable cause to believe that the bank is about to violate, a law, rule, or regulation, or any condition imposed in writing by the agency in connection with the granting of any application or other request by the bank, or any written agreement entered into with the agency, the agency may issue and serve upon the bank a notice of charges in respect thereof. The notice shall contain a statement of the facts constituting the alleged violation or violations or the unsafe or unsound practice or practices, and shall fix a time and place at which a hearing will be held to determine whether an order to cease and desist therefrom should issue against the bank. Such hearing shall be fixed for a date not earlier than thirty days nor later than sixty days after service of such notice unless an earlier or a later date is set by the agency at the request of the bank. Unless the bank shall appear at the hearing by a duly authorized representative, it shall be deemed to have consented to the issuance of the cease-and-desist order. In the event of such consent, or if upon the record made at any such hearing, the agency shall find that any violation or unsafe or unsound practice specified in the notice of charges has been established, the agency may issue and serve upon the bank an order to cease and desist from any such violation or practice. Such order may, by provisions which may be mandatory or otherwise, require the bank and its directors, officers, employees, and agents to cease and desist from the same, and, further, to take affirmative action to correct the conditions resulting from any such violation or practice.

(2) A cease-and-desist order shall become effective at the expiration of thirty days after the service of such order upon the bank concerned (except in the case of a cease-and-desist order issued upon consent, which shall become effective at the time specified therein), and shall remain effective and enforceable as provided therein, except to such extent as it is stayed, modified, terminated, or set aside by action of the agency or a reviewing court.

(3) This subsection and subsections (c), (d), (h), (i), (k), (l), (m), and (n) of this section shall apply to any bank holding company, and to any subsidiary (other than a bank) of a holding company, as those terms are defined in the Bank Holding Company Act of 1956, in the same manner as they apply to a State member insured bank."

(4) This subsection and subsections (c), (d), (h), (i), (k), (l), (m), and (n) of this section shall apply to any branch, agency, and

. . . one of the conditions for which is that no member of the Jewish faith sit on the bank's board of directors or control any significant amount of the bank's outstanding stock."

(5) *An anti-boycott clause will not discriminate against foreign banks as opposed to domestic banks.* This argument is the weakest of those used against such an amendment in committee. There is an abundance of law on the books to prohibit domestic banks from engaging in such discriminatory practices.

(6) *There is demonstrable support in the present Congress for anti-boycott legislation.* Over 100 members of the House are cosponsors of one or more of four anti-boycott bills which are in various stages of the legislative process.

(7) *Discrimination is incompatible with the American way of life.* It is our responsibility, as the representatives of the American people, to see that practices such as the Arab boycott are rooted out. The manner in which the boycott has spread, in the face of passivity on the part of Congress and the Administration, is proof that we must always be willing to act to safeguard the liberties and rights of all of our citizens.

To some extent, we in Congress have shirked our duty by asking the Administration to enforce statements of policy, rather than law.

All of us know that these practices have no place in the United States. It is time for us now to write that principle into law so that it cannot be misinterpreted or misunderstood.

A copy of the amendment is appended.

BLANCHARD ANTIBOYCOTT AMENDMENT

(g) Notwithstanding any other provision of law, no application shall be approved by any Federal banking agency under section 102, 103, 104, or 201 of this Act, and no application referred to in subsections (d), (e), and (f) of this section shall be approved by any State bank supervisory authority or any Federal banking agency, as the case may be, unless the applicant agrees to refrain from and prohibit discrimination against any United States person, or any foreign person with respect to its activities in the United States, by reason of the religion, race, national origin, or sex of such United States or foreign person, or of any officer, director, employee, or creditor of, or any owner of any interest in, such United States or foreign person.

JAMES J. BLANCHARD.

ADDITIONAL VIEWS OF HON. JAMES J. BLANCHARD

I support H.R. 13876 and the objectives which it seeks to achieve.

However, I believe it should include an anti-discrimination provision, and I offered such a provision as an amendment when the bill was considered in committee.

While public attention in recent months has focused on the Arab boycott, my amendment would apply to any discriminatory practice based on race, religion, national origin or sex.

Personally, I do not believe members of Congress should have to argue in favor of such a provision. However, some members of the committee felt it inappropriate to insert the amendment in this bill, and accordingly, I would like to discuss the reasons for my position:

(*1*) *Congress, in previous legislation, has already given indication of its opposition to such practices as the Arab boycott.* Section 3(5) of the Export Administration Act of 1969 (50 U.S.C. App. 2402 (5)) includes the following language:

> It is the policy of the United States (A) to oppose restrictive trade practices or boycotts fostered or imposed by foreign countries against other countries friendly to the United States, (B) to encourage and request domestic concerns . . . to refuse to take any action . . . which has the effect of furthering or supporting . . .(such) practices or boycotts. . .

(*2*) *Congress, by failing to follow policy with legislation, has invited misinterpretation of its intent.* The lack of a specific prohibition has allowed the Administration too much latitude, and that latitude has been used unwisely. For example, until recently, the Department of Commerce has continued to circulate among American firms bid invitations which include boycott clauses. The Department also specifically stated in its rules and public notices that American firms were encouraged, *but not legally required*, to avoid complying with the boycott—an open invitation to comply.

(*3*) *Congress, by failing to act, has placed Administration officials in untenable positions.* It is unreasonable to expect the Department of Commerce to, in effect, discourage commerce by raising anti-boycott objections without clear legislative direction from Congress. Likewise, it is unreasonable to expect the Comptroller of the Currency to raise objections to the practices of foreign banks in this country without such direction. To see what happens in the absence of such direction, we have only to recall the events of last fall, when a Congressional subcommittee found it necessary to recommend a contempt citation against Commerce Secretary Rogers Morton because he refused to disclose boycott-related information to Congress.

(*4*) *There is a demonstrable need for legislation to stop discriminatory practices.* Early last year, the Comptroller wrote national banks to urge them to "scrupulously avoid" discriminatory practices. His letter said some banks "may have been offered large deposits or loans

banks operating in this country, consistent with effective Federal Reserve monetary policies.

Regulatory authority of the Federal Reserve

Section 7(d) of the bill would give the Federal Reserve Board regulatory authority over state-chartered foreign branches, agencies, or commercial lending companies.

Section 7(e) would require that before a foreign branch or agency could be established under state law, the approval of the Federal Reserve Board would be required.

The first 100 years of operations of state-chartered foreign banks in this country have produced no evidence of which we are aware that the national interest has suffered because of the absence of federal regulation of these institutions. The extension of the Federal Reserve Board's authority as provided in Sections 7(d) and 7(e) of this bill is unwarranted in the absence of a clear showing that the states have failed to properly perform their supervisory responsibilities regarding foreign bank branches and agencies.

The vast majority of foreign bank assets in this country are located in New York and California, and to a lesser extent in Illinois, Oregon, Washington, and Massachusetts. These states have competent banking departments, and we believe that the extension of the Fed's authority as proposed under the provisions mentioned above represents an unjustifiable effort to centralize greater bank regulatory authority in the Federal Reserve.

Accordingly, we will offer an amendment to strike both of these subsections from the bill.

ROBERT G. STEPHENS, Jr.
HENRY GONZALEZ.
JOHN H. ROUSSELOT.
RON PAUL.

ADDITIONAL DISSENTING VIEWS ON H.R. 13876

The International Banking Act is a bill which sets out with the laudable intention of equalizing the laws regulating domestic banks and foreign banks. Up until now, foreign banks have had certain privileges denied to U.S. banks, such as the right to have interstate branches and the right to engage in such nonbank activities as underwriting. Perhaps as a result of these privileges, foreign banks in the United States have grown dramatically in recent years. This legislation seeks to remove these privileges and also subject foreign banks to the authority of the Federal Reserve System. Presumably, this will produce a system of regulation which does not discriminate between foreign and domestic banks.

It is regrettable that this committee did not consider the other alternative to achieving parity between foreign and domestic banks. Instead of increasing regulation on foreign banks so that they are regulated equally with domestic banks, why not decrease regulation on all banks equally? Would this not also serve the laudable goal of nondiscrimination? We believe it would.

It has often been said that the banking industry is probably the most heavily regulated in the country. The historic reason for this is that banks have an awesome power in their ability to create money through the use of fractional reserves and a responsibility to safeguard the savings of depositors. Furthermore, the banks have probably benefited more from this regulation than any other industry until recent times. By restricting entry into the banking business, government regulation has deliberately fostered a lack of competition, for which the consumer ultimately pays.

In his testimony to the Subcommittee on Financial Institutions, Professor Milton Friedman challenged the view that there is a need for additional regulation:

> In my view, a far more important need than nationalizing the administration of bank regulation is reducing the amount of such regulation. The banking system is regulated to a greater extent than almost any other sector of the economy. The public would benefit from a vast reduction in such regulation.
>
> The historic reason for the regulation of the lending and investing activity of depository instiitutions has been the close linkage between these activities and the provision of money—the circulating medium. The justified concern with assuring a stable monetary system has led, in my view, to an unjustified concern with controlling the lending and investing activities of financial institutions.

We agree and feel that there is no need for additional regulation of foreign banks at this time.

John H. Rousselot.
Ron Paul.

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF THE CHAIRMAN

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

August 26, 1976

Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

This responds to your request for the Corporation's views on H. R. 13876, 94th Congress, the "International Banking Act of 1976."

Presently, foreign banks can operate in the United States through domestically incorporated banking subsidiaries or through direct branches or agencies in a few States (primarily New York, California, Illinois and Massachusetts). To the extent that a foreign bank chooses to operate in this country through domestically incorporated banking subsidiaries, its domestic operations are generally subject to the same rules under the Bank Holding Company Act which govern the U. S. activities of domestic bank holding companies, with limited exceptions not here relevant covering certain nonbanking activities permitted by Federal Reserve regulations issued under section 4(c)(9) of that Act. However, to the extent that a foreign bank operates domestically through branches or agencies, it may escape certain restrictions and requirements applicable to domestic banking organizations -- mainly in the two areas of operating offices in more than one State and being affiliated with companies engaged in a securities business.

H. R. 13876 would attempt to remedy this unequal regulatory treatment of foreign and domestic banks by subjecting foreign banks' U. S. operations to limitations and requirements similar to those which presently apply to domestic banks, particularly in the areas of interstate branching and engaging in nonbanking activities such as securities underwriting. Additionally, the bill would require any domestic branch which is part of a foreign banking organization with total worldwide assets exceeding $1 billion to maintain reserves with the Federal Reserve, and any such branch which accepts domestic deposits would be required to maintain with the Federal Deposit Insurance Corporation a surety bond or pledge of assets, in form and amount as determined by the FDIC, "for the purpose of protecting such deposits to the same extent and in the same amount that the deposits would be protected under the Federal Deposit Insurance Act if the branch were an insured bank under that Act."

As indicated in our January 28, 1976 statement on a predecessor of H. R. 13876 (viz., S. 958), the Corporation fully supports the objective of establishing parity of regulatory treatment between the domestic operations of foreign banks and those of domes ic banking organizations. We believe, however, that H. R. 13876 would derogate from this principle of equal national treatment by imposing upon foreign banks Federal Reserve reserve requ rement as we l as a surety bond and pledge of assets requirement to protect depositors which would probably be more onerous than the regular deposit insurance coverage afforded domestic banks. There is no comparable requirement under existing law that all domestic banks with assets exceeding $1 billion maintain reserves with the Federal Reserve, nor is any type of deposit insurance protection presently required for dome ic nonmember banks unless they are subsidiaries of a bank holding company. Moreover by requiring this new form of deposit protection for domestic branches of foreign banks, the bill departs further from the principle of equal national treatment since the FDIC is not permitted to provide comparable protection for the deposits of a branch of a domestic bank separately from those of its head office and other branches of the bank.

Our statement on S. 958 noted that the FDIC had serious reservations about the necessity and desirability of making deposit insurance coverage available for domestic branches of foreign banks. We have similar reservations with respect to the type of deposit protection contemplated by H. R. 13876, but we are now prepared, as you will see, to endorse a carefully circumscribed deposit insurance program for U. S. branches of foreign banks (see pages 4-5 of this letter) as an alternative to incorporation of a domestic subsidiary by a foreign bank.

Insofar as foreign banks' domestic branches engage in "wholesale" international banking activities, deposit insurance protection is largely unnecessary. To the extent "wholesale" customers are concerned with deposit protection of up to $40,000 on their accounts, providing such protection for domestic branches of foreign banks accords different treatment to such foreign bank branches than to Edge Act corporations owned by U. S. banking organizations wh ch engage in the same type of business and are not covered by any form of deposit insurance coverage. Making such deposit protection available to foreign bank branches might also tend to encourage them to enter or expand their retail banking business in the United States, an option U. S.-owned Edge Act corporations do not have.

If foreign banks wish to expand their operations in this country into the retail banking business with the benefit of Federal deposit insurance, they presently have an option to do so under existing law through a domestically incorporated banking subsidiary. If equal treatment between foreign and domestic banks is the guiding principle, then the present requirements that foreign banks operate through a separately chartered domestic banking subsidiary if they wish to obtain deposit insurance coverage on their domestic retail deposits should be continued.

As noted in our January 28, 1976 Statement on S. 958, various other considerations also militate against providing the traditional type of deposit insurance protection for domestic deposits of U. S. branches of foreign banks. Some of these considerations are set forth below:

(1) Directors of the foreign bank are not usually subject to U. S. jurisdiction, and domestic branch personnel essential to explain certain transactions can be transferred beyond the reach of U. S. authorities. Also, essential records may be difficult to reach if they are kept at the head office or at branches in other countries.

(2) The domestic branch may be subjected to requirements under foreign law or to political and economic decisions of a foreign government which conflict with domestic bank regulatory policies.

(3) Administrative enforcement proceedings initiated by domestic regulatory authorities against domestic branch personnel may be frustrated or nullified as a result of lack of jurisdiction over the foreign bank's head office and head office personnel.

(4) Many foreign banks are permitted under the law of their headquarters country to engage in business activities abroad which would not be permitted to banks chartered in this country. Such foreign activities could give rise to antitrust, conflict-of-interest and other legal problems under U. S. law.

(5) In the event of insolvency of a foreign bank, it is possible that:

-- Assets could be easily and quickly shifted <u>from</u> the U. S. branch and out of U. S. jurisdiction, while <u>deposits</u> could be shifted <u>to</u> the U. S. branch.

-- Legal obstacles and transactions involving other offices of the foreign bank might prevent FDIC from obtaining the usual subrogation of claims it normally gets from depositors in failed U. S. banks before making payment. Even if adequately subrogated, FDIC's aggregate claim in the failed bank's receivership estate might be jeopardized by foreign laws and procedures.

-- Creditors with claims against other offices of the failed bank -- especially banks holding deposits of the U. S. branch -- could attempt offsets against assets in the U. S. or seek preferences based on foreign law.

While we feel we would be able to mitigate some of these difficulties by imposing various conditions and restrictions upon the foreign bank under FDIC regulations issued pursuant to the surety bond and pledge of assets provision of the bill, the value of such requirements would depend ultimately upon the ability to physically enforce such requirements by exercising <u>quasi in rem</u> jurisdiction over the foreign bank's domestic assets and/or obligors.

Short of a dollar-for-dollar pledge of assets with the FDIC to back up 100 percent of the branch's domestic "insured" deposits, efforts to impose requirements designed to insure the presence in the United States of adequate assets of the foreign bank to cover its domestic liabilities could turn out to be of little real value. Just when compliance with such requirements is most needed (e.g., hours, days, or weeks before the foreign bank's demise or the outbreak of war) is precisely when the temptation to violate requirements of that kind could become irresistible. The value of such requirements is particularly limited in situations where the chartering foreign government condones the foreign bank's efforts to escape U. S. restrictions. On the other hand, requiring the domestic branch to maintain a substantial portion of its assets in the custody of a third party and in the form of obligations of domestic obligors or requiring a surety bond to guarantee the presence in the U. S. of a stipulated amount of the foreign bank's assets could prove so onerous or costly for the foreign bank to comply with as to make such restrictions tantamount to a bar against the foreign bank's accepting domestic deposits through a U. S. branch.

Although some of these same problems presently exist in the case of domestically incorporated subsidiaries of foreign banks, the fact of general U. S. jurisdiction over the separately incorporated subsidiary and its assets has been clearly established. Moreover, at least a majority of the domestic subsidiary's board of directors are generally required to be local residents and therefore more readily subjected to domestic civil and criminal sanctions.

We conclude, therefore, that if a foreign bank wishes to qualify for any form of Federal deposit insurance coverage, it would be more desirable to require the foreign bank, as at present, to establish a separately incorporated domestic subsidiary rather than to require it to attempt to qualify a branch for insurance under the provisions of Sec. 6 as currently drafted. If Congress is concerned that domestic depositors might be misled into believing their deposits with foreign bank branches are FDIC-insured, such branches could be required by statute to provide depositors with conspicuous notice to the contrary on deposit forms and in deposit advertising. For reasons of parity, similar requirements would probably have to be imposed on domestically organized noninsured banks as well.

As an alternative to requiring that foreign banks incorporate a domestic subsidiary to obtain deposit insurance for U. S. deposits, we would suggest that a modified version of the surety bond and pledge of assets approach presently contained in Sec. 6 of the bill be combined with regular deposit insurance for such branches offered on an optional basis along the lines of the attached revision of Sec. 6.

Under the revised Sec. 6 foreign banks' domestic branches would be given the option of applying for deposit insurance. If they choose to do so, they would become subject to a much less onerous form of surety bond and pledge of assets requirement which would be designed not to provide each branch's domestic depositors 100 percent protection on a dollar for dollar basis, but rather merely to give the Federal deposit insurance fund a measure of added protection

to compensate for the additional risks to which it would be subjected, as described above, by virtue of insuring the domestic deposits of an entity operating for the most part outside of U. S. jurisdiction. Domestic depositors would be fully protected up to $40,000 just as are depositors in domestic insured banks. We believe that this approach combining regular deposit insurance coverage with a modified form of the surety bond and pledge of assets requirement would be an acceptable compromise from the Corporation's standpoint which would put foreign banks on as nearly an equal basis as possible with domestic banks while at the same time affording appropriate supplemental protection to the deposit insurance fund roughly commensurate with the added degree of risk included in insuring foreign entities.

It will be noted that the attached revision of Sec. 6 would give the FDIC authority to define "domestic deposits" for purposes thereof. It is contemplated that that term would be defined to include deposits of individuals who are citizens or residents of the United States and companies having an appropriate business nexus with this country. It is likely also that such "domestic deposits" would be required to be denominated exclusively in U. S. dollars and payable only in the United States, also including perhaps a requirement that the deposit contract provide that U. S. law govern the depositary relationship. Other criteria might also have to be considered from time to time in determining what would be an appropriately insurable "domestic deposit." We would greatly prefer the more flexible approach of defining this term by regulation rather than attempting to do so by statute.

It is also noted for the record that granting FDIC coverage for domestic deposits of U. S. branches of foreign banks raises the concomitant issue of providing similar coverage for the foreign deposits of U. S. banks. While the FDIC has proposed legislation which would move in the opposite direction by expressly precluding deposit insurance for any deposit of an insured bank payable abroad (see § 1 of S. 2233), we would defer to the Congress if it should wish to provide such coverage for U. S. deposits abroad.

Very truly yours,

Robert E. Barnett

Robert E. Barnett
Chairman

Attachment

INSURANCE OF DEPOSITS

SEC. 6.(a) Any branch may become an insured bank under the Federal Deposit Insurance Act (12 U.S.C. 1811-31b) with respect to its domestic deposits, as defined by regulation by the Board of Directors of the Federal Deposit Insurance Corporation, as if such branch were a State nonmember bank. Upon so becoming an insured bank, a Federal branch shall thereafter be treated as if it were a national member bank, and any other branch shall thereafter be treated as if it were a State member bank, for purposes of applying the Federal Deposit Insurance Act to such branch's domestic activities (except that any such branch shall continue to be treated as a State nonmember bank for purposes of the first sentence of Section 8(a) of that Act providing for voluntary termination of insured bank status). Any branch which becomes an insured bank shall maintain with the Federal Deposit Insurance Corporation, or as the Corporation may otherwise direct, a surety bond or a pledge of assets in such amount and subject to such conditions and rules as the Corporation may prescribe for the purpose of providing some additional protection to the deposit insurance fund against the additional risks entailed in insuring the domestic deposits of a foreign bank whose activities, assets and personnel are in large part outside the jurisdiction of the United States. In prescribing such rules, however, the Corporation shall, to the maximum extent it considers appropriate, endeavor to avoid imposing requirements on such branches which would place them at an undue competitive disadvantage vis-a-vis domestically incorporated banks with which they compete.

(b) Paragraph (a) of this section shall take effect 180 days after enactment hereof. Within 90 days after enactment and as may be appropriate thereafter, the Corporation shall submit to the Congress its recommendations for amending the Federal Deposit Insurance Act so as to enable the Corporation to implement the provisions of this section in a manner fully consistent with the purposes of that Act.

OFFICE OF
THE CHAIRMAN

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

August 27, 1976

The Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
of the Senate Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Re: H.R. 13876, the International Banking Act of 1976

Dear Senator McIntyre:

This letter is in response to your request, contained in your letter of August 11, 1976, for the Commission's view on the above legislation.

The stated objectives of this bill are to provide a system of federal regulation of foreign banking activities and to provide, to the extent possible or appropriate, equal treatment for foreign and domestic banks operating in the United States. Most of the provisions of this bill are, in fact, concerned solely with matters of federal bank regulation, and for that reason are outside the scope of this agency's responsiblities or expertise. The Commission, therefore, expresses no views on these provisions.

Section 8 of the bill addresses the scope of permissible nonbanking activities of foreign banks in this country, with particular reference to the activities of securities firms affiliated with foreign banks. It must be observed that this particular provision is not a model of clarity, and some confusion may arise as to its exact meaning, should the bill be enacted in its present form.

With regard to securities firms that are affiliates of foreign banks, the Commission can state that, in general, such entities are subject to the Commission's regulatory jurisdiction and their activities have given rise to no significant regulatory problems merely by virtue of the fact

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that they are affiliates of foreign banks. Foreign banks may act as brokers and dealers in securities in the United States only by registering with the Commission. The Commission has pervasive record keeping and inspection rights under Section 17 of the Exchange Act. Consequently, the Commission would appear to currently have ample authority to monitor and examine the activities of investment banking subsidiaries of foreign banks to assure that securities sold by them would be sold only to non-United States residents, a requirement we understand is intended to be imposed upon such subsidiaries by the bill.

Existing rules with respect to disclosure of broker-dealers' accounts are not adequate to insure that persons buying securities outside of the United States are not actually United States citizens buying through nominees or other parties. Foreign secrecy laws represent substantial barriers to detection of such indirect buying by United States citizens. Accordingly, the Commission has proposed an amendment to Rule 17a-3(a)(9) under the Exchange Act pursuant to Release No. 12055 (January 27, 1976), which would require brokers and dealers to keep records disclosing the name and address of each beneficial account maintained by natural persons. If this rule is adopted, persons not willing to waive the protection of foreign secrecy laws would not be able to maintain accounts, directly or indirectly, with any United States broker-dealer (including, or course, a foreign owned broker-dealer). Such a rule would help to foreclose the possibility of indirect sales to United States citizens.

Of course, as the Committee is aware, the extent to which banks, foreign or domestic, should be permitted to engage in the securities business, is to some extent a controversial subject. These issues, however, present policy considerations which are not directly the concern of this Commission. As you know, the Securities Acts Amendments of 1975, Public Law 94-29, authorized and directed the Commission to make a study of the extent to which persons excluded from the definition of the terms "broker" and "dealer" contained in the Securities Exchange Act maintain accounts on behalf of public customers for buying and selling publicly

traded securities and whether such exclusions are consistent with the protection of investors. However, as the Conference Report on this legislation noted, the Commission is not authorized to study or make recommendations with respect to whether these activities are or should remain permissible, which was the subject of an investigation being undertaken by the Committee.

We suggest to the Committee, however, that there may be a problem in making the extent of permissible foreign bank activities in this area dependent upon the extent of permissible domestic bank activities at a time when it is not clear what securities-related acitivities domestic banks may engage in. Conceivably, once the scope of permissible activities for domestic banks is clarified, whether by legislation or court decision, it will be possible to draft a provision which more precisely defines those activities which foreign banks could freely engage in, which activities it is appropriate to protect by means of a "grandfather" provision, and which activities should be prohibited.

The Commission appreciates this opportunity to comment on H.R. 13876. If we can be of further assistance to the Committee in connection with its consideration of this legislation, please let me know.

Sincerely,

Roderick M. Hills
Chairman

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

SEP 16 1976

Dear Mr. Chairman:

We would like to comment on the letter to the Committee from Chairman Roderick Hills of the Securities and Exchange Commission, dated August 27, 1976, on the International Banking Act of 1976. This letter was placed in the record during the hearings on August 31 on the Act.

Chairman Hills suggested in his letter that Congress wait until the scope of permissible securities activities of domestic banks is clarified before determining (1) which securities activities of foreign banks should be permitted and (2) which existing non-conforming securities activities of foreign banks should be protected by a "grandfather" provision.

The Administration believes that foreign banks operating in the United States should be subject prospectively to the same limitations with respect to securities activities as are domestic banks. The legal boundaries of permissible securities activities of domestic banks may be unclear presently. However, we see no need to defer enactment of Section 8 of the International Banking Act until a Congressional review of permissible activities of domestic banks is completed. Section 8 would subject foreign banks to the same restrictions on their securities activities as presently apply to domestic banks. We believe enactment of Section 8 would eliminate an anomaly in the existing regulation of bank activities in the United States, and therefore we support its enactment, with the modifications suggested in my August 31 testimony.

However, as I testified before your Subcommittee, we firmly believe that existing securities activities of foreign banks not conforming with the new law should be permanently grandfathered. These securities affiliates of foreign banks have been operating in good faith for many years, and have provided desirable competition and liquidity to United States securities markets.

Chairman Hills also suggested that it would be desirable to adopt proposed Rule 17a-3 if Section 8 of the bill were enacted. This Rule would permit the Securities and Exchange Commission to examine the records of United States investment banking subsidiaries of foreign banks to assure that securities sold by them would be sold after 1985 only to non-U.S. residents. All brokers and dealers would be required to disclose, at the Commission's request, the identity of the beneficial owner of each account.

We are concerned that the disclosure requirements of this proposed rule would be inconsistent with investors' legitimate interest in privacy. In particular, foreign investors might be discouraged from investing in United States' securities markets. More importantly, U.S. securities affiliates of foreign banks may be precluded by secrecy laws of other governments from complying with disclosure requirements. These foreign laws protect the confidentiality of relationships and of account ownership. Finally, proposed Rule 17a-3 could frustrate the intent of the International Banking Act of 1976 to permit foreign securities affiliates to participate in United States underwritings provided they market underwritten securities abroad. The proposed Rule could effectively prevent foreign securities affiliates from selling securities abroad. Consequently, we have urged the SEC to consider alternative means of ascertaining the beneficial ownership of individual accounts.

If I can be of further assistance to the Committee in connection with its consideration of this legislation, please let me know.

Sincerely yours,

George H. Dixon

The Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
of the Senate Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Senator McIntyre. We call as our next witnesses a panel consisting of John B. Olin, president, Conference of State Bank Supervisors, William Volckhausen, special counsel, New York State superintendent of banks, New York State Banking Department; and Carol Greenwald, commissioner of banks, Commonwealth of Massachusetts.

I want to welcome you all here this morning and of course we're already running behind, so if you can make your comments in 5 minutes that will be fine. I have a number of questions I want to ask all of you good witnesses. So will you proceed in the order I named you. Mr. Olin first.

STATEMENT OF JOHN B. OLIN, PRESIDENT, CONFERENCE OF STATE BANK SUPERVISORS

Mr. Olin. Mr. Chairman and members of the subcommittee, I am John B. Olin, superintendent of banks for the State of Oregon and president of the Conference of State Bank Supervisors in whose behalf I am pleased to testify today. With me are Carol Greenwald, commissioner of banks for the State of Massachusetts and William Volckhausen, special counsel for the State of New York, both of whom are testifying for their respective States.

In summarizing the statement which the Conference has filed with the subcommittee on this bill I would like to highlight several areas.

One: The Conference supports provisions of this bill which would provide a Federal chartering option for foreign banks operating in this country. This is an extension of the principle of dualism and the Conference believes that chartering alternatives should be available to foreign banks as well as to our domestic banks.

Two: CSBS opposes section 5 of the bill because it contains provisions which the Conference believes are contrary to our national interests and represent an unwarranted preemption of State law.

This section would prohibit multistate locations of foreign branches until domestic national banks are accorded the same privilege of branching across State lines. While designed to correct an alleged competive discrimination in favor of foreign banks, because domestic banks cannot now branch interstate, CSBS considers this competitive advantage to be largely illusory and an unsupportable basis for the one-State restriction on foreign branches as proposed in this bill. As pointed out in some detail in our written statement, foreign-owned multistate branches are confined principally to New York and Illinois, although a few foreign banks have two-State branch locations in Massachusetts, Oregon, Washington, Puerto Rico, or the Virgin Islands.

In sharp contrast to this limited multistate presence of a relatively small number of foreign-owned branches, the interstate operating entities of our domestic banks extend into almost every State. The American Banker newspaper in recent months has carried a series of articles reflecting that 12 bank holding companies alone in the United States have "nonbank" affiliates in 43 States and operate some 1,500 nonbanking offices outside the State in which their headquarters are located. A large proportion of these bank-related out-of-State facilities provide specialized financial services comparable to those offered by some domestic commercial banks (see p. 189).

In actuality, the interstate banking activities of domestic bank holding company subsidiaries, loan production offices, Edge Act corporations and a nationwide correspondent banking system make insignificant in comparison the multistate presence of foreign banks operating here.

The practical effect of section 5(a) would be that, for the foreseeable future, foreign branches would be limited to a one-State location, and under such conditions, they would, in all probability, select New York or California, our major money market centers, in which to operate.

Such a development would have the harmful effect of preempting other States which, in the future, might desire to invite out-of-State foreign branches into their borders as part of their efforts to increase their roles in international banking affairs, and at the same time, serve the interests of their residents.

It is the position of CSBS that States which desire to expand their roles in the international banking field should be permitted to do so as at the present time, and without the necessity for Congress to reach a consensus on whether domestic banks should be permitted to branch interstate.

Three: CSBS opposes provisions in section 7(a) which would impose Federal Reserve Board reserve-setting authority on State-chartered foreign branches, agencies, or commercial lending companies based on an asset-size test. This compulsory affiliation would be discriminatory against State-chartered foreign banking entities, despite the effort to make it more palatable through the asset-size standard. Affiliation with the Fed for reserve purposes is optional for our domestic State-chartered banks, regardless of size, and it should be so for State-chartered foreign branches.

Four: CSBS opposes those provisions of section 7 (c) and (d) which would authorize the Fed to impose on foreign bank operations regulatory controls of the Federal Reserve Act, in addition to reserve requirements, as though they were member banks. There has been no showing that the absence of such extensive Federal controls over State-chartered foreign banking operations in this country has been contrary to our national interests or resulted in banking practices of an unsafe or unsound nature, or that the States involved are not providing adequate supervision.

Such Federal controls would be duplicatory in many significant respects and could lead to conversions to Federal charters, since State-chartered institutions would be regulated largely by Federal agencies anyway.

Five: CSBS opposes the provisions in section 7(e) which would give the Fed a veto power over State banking departments in determining whether the foregoing foreign-owned institutions could be organized under State law. The Conference regards this provision as an unjustified extension of Federal regulatory power in an area that has not been a regulatory problem, or resulted in State licensing decisions adverse to our national interests.

Our State bank supervisors in New York and California, where the vast majority of foreign bank assets are located, have followed the practice of consulting with State Department personnel to assure that the interests of this country are protected in connection with entry questions.

CSBS is certain that State banking authorities where foreign banks are located would be pleased to continue to participate in consultative procedures with appropriate U.S. State or Treasury Department representatives in connection with requests for operating powers by foreign banking institutions.

However, if equality of treatment is one of the purposes of this bill, then foreign branches, agencies, and commercial lending companies should be able—as are our domestic State-chartered nonmember banks—to establish a State-chartered facility without the Fed's concurrence.

Thank you, Mr. Chairman.

[Complete presentation follows:]

STATEMENT OF MR. JOHN B. OLIN

ON BEHALF OF

THE CONFERENCE OF STATE BANK SUPERVISORS

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

COMMITTEE ON BANKING, HOUSING AND

URBAN AFFAIRS

U. S. SENATE

RE: H.R. 13876 - THE INTERNATIONAL BANKING ACT OF 1976

AUGUST 31, 1976

conflict with the state laws where the out-of-state foreign banking facilities are located. This question is best handled at a state level.

Closely related to the foregoing, CSBS considers it in the national interests for Congress to facilitate efforts of states desirous of doing so to broaden their roles in international banking matters as a competitive matter and to facilitate the flow of capital through our capital markets and the movement of trade into and out of this country.

In an effort to put this so-called competitive issue into perspective, it should be pointed out that according to data from the Federal Reserve Board there are some 17 foreign-owned banks which have established branches in this country in more than one state. These multi-state branches are confined principally to New York and Illinois although a few foreign banks have two-state branch locations in Massachusetts, Oregon, Washington, Puerto Rico or the Virgin Islands. (See Exhibit #1)

In sharp contrast to this limited multi-state presence of a relatively small number of foreign-owned branches, the interstate operating entities of our domestic banks extend into almost every state. The American Banker newspaper in recent months has carried a series of articles reflecting that 12 bank holding companies alone in the United State have "nonbank" affiliates in 43 states and operate 1,550 "nonbanking" offices located outside the state in which their headquarters are located. A large proportion of these out-of-state bank-related facilities provide specialized financial services comparable to those provided by some domestic commercial banks. These same 12 bank holding companies

conduct interstate operations through 34 Edge Act Corporations and 23 loan production offices.

Illustrative of some of this interstate bank-related activity of our domestic bank holding companies is that mentioned in the American Banker article of October 23, 1975 which states that the BankAmerica Corporation of San Francisco has 336 nonbank offices in 32 states covering such activities as consumer and sales finance, commercial lending, mortgage banking, selling and reinsuring credit-related insurance, leasing, computer services and providing venture capital to business. The October 29 issue of the American Banker comments that Citicorp headquartered in New York has 284 offices in 164 cities in 34 states, plus Washington, D. C. Manufacturers Hanover Corporation of New York, according to the November 5, 1975, issue of the American Banker, has domestic "nonbank" subsidiaries in 151 offices in 15 states, not counting New York State.

In addition to the foregoing interstate bank-related affiliates, there were as of year-end 1974 eight U.S. bank holding companies which held banks in more than one state through grandfathering provisions of the Bank Holding Company Act of 1956. For example, the Western Bancorporation of Los Angeles, California, had banks in Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming. The Financial General Corporation of Washington, D. C., had banks in Georgia, Maryland, New York, Tennessee and Virginia.

It should be pointed out that in addition to the above, most foreign banks through their branches in our financial centers pursue primarily a wholesale banking business rather than compete

with our domestic banks in local retail markets. Former Federal Reserve Board Vice Chairman George W. Mitchell furnished information to this Subcommittee earlier this year relative to S. 958. In discussing the principal reason why foreign banks have entered the United States, he stated it has "been to service the needs of multi-national corporations (both U.S. and foreign-based) which tend to be customers of these banks and to accommodate home country customers who do business in the United States. Servicing these customers is likely to remain the primary business of foreign banks operating in the United States." Mr. Mitchell pointed out that some foreign banks in an effort to diversify their business and gain a more stable deposit base are likely to develop a significant retail business in the United States, but that in all probability this would continue to be a distinctly secondary aspect of the U.S. business of these companies. 1/

I believe it is appropriate to also point out that Section 3(d) of the Bank Holding Company Act presently provides the legal mechanism for full service banking across state lines by either domestic or foreign banks. This Section permits the acquisition or establishment of commercial banks by bank holding companies located out of state, if the statute of the state in which the bank is located specifically authorizes such action "by language to that effect and not merely by implication." The State of Maine has recently enacted legislation permitting out-of-state acquisition on a reciprocal basis, effective in 1978, and New York has on

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1/ Hearings before the Subcommittee on Financial Institutions of the Committee on Banking, Housing and Urban Affairs, U.S. Senate on S. 958, The Foreign Bank Act of 1975, p. 163.

several occasions introduced legislation to permit reciprocal interstate banking although no law has been enacted to provide such activity.

<u>Authority of Federal Reserve System</u>

Section 7(a) of H.R. 13876 would provide that foreign bank state-chartered branches, agencies or New York investment companies be subject to the reserve-setting authority of the Federal Reserve System if the parent foreign bank has total worldwide consolidated bank assets in excess of $1 billion.

The Conference of State Bank Supervisors opposes the above provisions. They discriminate against foreign branches in a manner likely to motivate retaliation which would violate U.S. public interest. Affiliation with the Federal Reserve Board is optional for domestic state-chartered banks, regardless of size. It should be optional for foreign branches. The bill attempts to make less distasteful this compulsory affiliation for state-chartered foreign branches by merely attaching a size criterion. Size is not a proper criterion for imposing reserves. To carry this to its logical conclusion would require that all large banks be affiliated with the Federal Reserve System.

The Conference opposes provisions in Subsections (c) and (d) which would authorize the Federal Reserve Board to impose on foreign bank operations regulatory controls of the Federal Reserve Act, in addition to reserve requirements, as though they were member banks. And, Subsection (e) of the bill would actually give the Federal Reserve Board a veto power

over state banking departments in determining whether these institutions could be organized under state law.

The Conference of State Bank Supervisors regards the foregoing provisions as unwarranted as well as possessing adverse implications for the dual banking system.

Foreign banks have been operating in this country for approximately 100 years under state law and supervisory control. It is true that these institutions have been growing in this country in recent years but they have provided a competitive stimulus to our domestic banks, provided services to some ethnic groups which might not otherwise have been able to obtain them, and they are a vital consideration in connection with the growing presence of U.S. banks abroad. It is to be hoped that under state supervision and control foreign banks will continue a healthy growth, provide employment opportunities, stimulate domestic production through their financing of foreign trade and maintain the healthy environment so necessary for an effective United States presence abroad. In this connection, according to data from the Federal Reserve Board as of April 1976, the assets of U.S. banking offices abroad were some $220 billion, or approximately 3 1/2 times greater than the assets of banking offices of foreign banks operating in the United States.

Mr. Chairman, there has been no showing whatsoever that the absence of extensive federal controls proposed in this bill has been contrary to our national interests, resulted in banking practices that have been unsafe or unsound, or that the states involved are not providing adequate regulation. Surely such a showing should be essential before adopting sweeping federal

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controls over state-chartered foreign banking institutions - controls that are duplicatory in many significant respects and could lead to conversions to federal charters since as a state-chartered organization they would be regulated by federal agencies anyway. By converting they could avoid one layer of duplicatory supervision, namely that imposed by a state.

I think it appropriate to point out at this time that former Federal Reserve Board Vice Chairman George Mitchell in furnishing this Subcommittee information on foreign banks operating in this country stated:

> "There is nothing to indicate that foreign banks are 'abusing' their powers in the sense that they are using the opportunities available to them under the present system to engage in any improper or unsound banking practices. On the contrary, it has been the experience of the Board that foreign banks operating in the United States have scrupulously complied with existing U.S. laws and regulations and have been generally cooperative in their dealings with the Board."[2/]

Mr. Chairman, CSBS does not believe it to be the intent of the Congress to federalize that segment of the dual banking system which deals with foreign banking matters.

2/ Hearings before the Subcommittee on Financial Institutions of the Committee on Banking, Housing and Urban Affairs, U.S. Senate on S. 958, The Foreign Bank Act of 1975, p. 160.

If this extension of federal authority is proposed on the grounds that state banking departments have not exercised prudence in chartering banks or licensing branches, agencies or commercial lending companies, then the Conference is not aware that any showing has been made to this effect. Nor has any such showing been made that our national interests or monetary goals have been subverted by reason of the fact that the Fed up to this time has not had this sweeping authority over state banking departments in the area of foreign bank regulations.

As a matter of fact our New York and California Banking Departments - where approximately 95% of foreign bank assets are located - have followed the practice of consulting with State Department personnel to assure that the interests of this country are protected in connection with entry questions. CSBS is certain that the state banking authorities where foreign banks are located would be pleased to continue to participate in consultative procedures with the appropriate U.S. State Department or Treasury Department representatives in connection with requests for operating powers by foreign banking institutions.

If equality of treatment is one of the purposes of this bill, then foreign branches, agencies and commercial lending companies should be able - as are our domestic nonmember banks - to establish a state chartered facility without the Fed's concurrence.

For the foregoing reasons the Conference of State Bank Supervisors considers 7(e) unacceptable and requests that it be stricken from the bill.

Acceptance of Deposits

Section 6 of this bill would require that as a prerequisite

of foreign branches accepting deposits of U.S. citizens or businesses they must maintain with the FDIC a surety bond or pledge of assets in an amount determined by the FDIC for the purpose of protecting such deposits to the same extent and in the same amount that they would be protected in an insured bank.

Former FDIC Chairman Frank Wille in submitting a statement to this Subcommittee on S. 958 earlier this year stated as follows regarding FDIC insurance for the protection of foreign branches, agencies and commercial lending companies:

> "In conclusion, it is our view that the Federal Reserve has established no clear need for regulating foreign bank operations in this country differently from those of domestic banks. We therefore believe that, if existing law stays as it is for domestic banks, both Federal Reserve membership and Federal deposit insurance should be made available to foreign bank's domestic operations only on an optional basis and that if a foreign bank wishes to qualify for Federal deposit insurance, it continue to be required, as at present, to establish a separately incorporated domestic subsidiary. Domestic branches and agencies of foreign banks should not be eligible for Federal deposit insurance without a full appreciation by the Congress of the substantial financial risks this could entail for the Federal deposit insurance fund." 3/

3/ Hearings before the Subcommittee on Financial Institutions of the Committee on Banking, Housing and Urban Affairs, U.S. Senate on S. 958, The Foreign Bank Act of 1975, p. 250.

In testimony before this Subcommittee during January 1976 on S. 958, CSBS stated there was a difference of views among our supervisors as to the necessity of extending FDIC insurance to foreign branches and agencies.

I would like to reiterate that state banking departments regularly examine foreign-owned state-chartered subsidiaries, branches and agencies for safety and soundness. Because the FDIC does not insure deposits of foreign branches and because capital is a nebulous concept, states have resorted to various statutory or legal "substitutes" and approaches to assure the safety of deposits. The statutory form is generally patterned after New York Banking law (Sec. 202) which requires foreign institutions to hold 108% of their liabilities in banks approved by the State Bank Supervisor.

Nonbanking Activities

Section 8 is designed to deal with the alleged competitive advantages enjoyed by foreign banks over domestic banks through securities affiliates of foreign banks operating in this country.

The securities affiliates of foreign banks are relatively few in number and are located principally in New York City, where they engage primarily in brokerage activities for foreign customers of these banks. Additionally, it should be borne in mind that our domestic banks offer a number of automatic investment plans to depositors and shareholders, and through Edge Act Corporations abroad, U.S. banks engage in the underwriting, distribution and sale of securities in foreign countries.

CSBS is of the opinion that any federal legislation affecting the securities activities of foreign banks should come only after

an extensive Congressional review of the Glass-Steagall Act such as that which has been initiated this year by the Senate Securities Subcommittee. If, after the completion of such review prohibitions are continued on domestic banks engaging in activities now forbidden them by the Glass-Steagall Act, the Conference would favor prohibiting the expansion of such activities by foreign banks. However, should this development occur, CSBS believes it only equitable to grandfather related existing operations.

In conclusion, CSBS believes that certain key provisions of H.R. 13876, while couched in terms of providing nondiscriminatory treatment between domestic and foreign banks operating in this country, actually violate this principle. This is particularly true with respect to provisions in Section 7 which would impose mandatory Federal Reserve Board reserve-setting authority over state-chartered foreign banking entities of a certain size. State-chartered domestic banks regardless of size have the choice of affiliating with the Fed in this area, and foreign banking entities operating under state charter should also have this option. Furthermore, it is the position of CSBS that the Fed does not need this reserve-setting authority over state-chartered domestic banks, let alone foreign banks, in order to carry out its monetary policy.

Other provisions of Section 7 which would permit a Federal Reserve Board veto over state banking departments in the establishing of certain foreign banking entities under state law are totally unwarranted and represent an arrogation of power by the Fed in an area which has not constituted a regulatory or national interest problem for over a hundred years. Nor has any

justification been made for imposing on state-chartered foreign banking operations Federal Reserve Board regulatory controls applicable to member banks.

Finally, the one-state provisions of Section 5 of this bill which would, for the foreseeable future, prevent a state from inviting into its borders a foreign branch that also has a location in another state is, in the opinion of CSBS, contrary to our national interests and to the rights of states to exercise the option to develop their international banking posture.

Thank you Mr. Chairman.

Exhibit #1

FOREIGN BANKS WITH OFFICES IN MORE THAN ONE STATE

(SEPTEMBER, 1975)

Parent Organization	Branch	Agency	Bank	Parent Organization	Branch	Agency	Bank
Algemene Bank Nederland	NY Ill.	Cal.		Banque Nationale de Paris	Ill.	Cal.	Cal.-French Bank of Cal. (1) NY-Investment Co.-French American Banking Corporation
Banca Commerciale Italiana	NY Ill.	Cal.		Barclay's Group	NY(2) Ill. MA,VI	Cal.	NY-Barclays Bank of NY (24) Cal.-Barclays Bank of Cal. (37)
Banco di Roma	NY	Cal.	Ill.-Banco di Roma (Chicago)	Canadian Imperial Bank of Commerce	Ore. Wash.	NY Cal.	NY-Canadian Bank of Commerce Trust Company Cal.-California Canadian Bank (19)
Banco do Brasil	NY	Cal. (2)		Commerzbank	NY Ill.		
Banco Nacional de Mexico		NY Cal.		Compagnie Financiere de Suez	NY Ill.		
Banco Real	NY	Cal.		Credit Lyonnais	NY Ill.	Cal.	
Bank Leumi le-Israel	Ill.	NY	NY-Bank Leumi le-Israel	Dai-Ichi Kangyo Bank		NY Cal.	Ill.-First Pacific Bank of Chicago
Bank of Montreal		NY Cal.	NY-Bank of Montreal Trust Co. Cal.-Bank of Montreal (Calif.) (4)	Daiwa Bank		NY Cal.	
Bank of Nova Scotia	PR(3) VI(5)	NY Cal.	NY-Bank of Nova Scotia Trust Company of New York	Dresdner	NY Ill.	Cal.	
Bank of Tokyo	Ore. Wash.	NY Cal. (2)	NY-Bank of Tokyo Trust Co. (4) Cal.-Bank of Tokyo of Cal. (22)	European-American Group	Ill.	Cal. (2)	NY-European-Amer. Bank & Trust Co. (106), Investment Co-European-Amer. Banking Corp.

Note: Data in this table was part of the appendix to the statement of Mr. George W. Mitchell, Former Vice Chairman, Federal Reserve Board, on January 28, 1976 before the Senate Subcommittee on Financial Institutions on S. 958, The Foreign Bank Act of 1975.

FOREIGN BANKS WITH OFFICES IN MORE THAN ONE STATE
(SEPTEMBER, 1975)
(CONT'D)

Parent Organization	Branch	Agency	Bank	Parent Organization	Branch	Agency	Bank
Fuji Bank		NY Cal.	NY-Fuji Bank and Trust Company	National Bank of Greece	Ill.		NY-Atlantic Bank of New York (2)
Hokkaido Takushoku Bank		NY Cal.		National Westminster Bank	NY Ill.	Cal.	
HongKong and Shanghai Banking Corporation	NY Ill. Wash.	Cal.	Cal.-HongKong Bank of Cal. (9)	Philippine National Bank	NY	Cal. Ha.	
Industrial Bank of Japan		NY Cal.	NY-Industrial Bank of Japan Trust Company	Royal Bank of Canada	PR(5) VI	NY Cal.	NY-Royal Bank of Canada Trust Co.
International Commercial Bank of China	Ill.	NY		Saitama Bank		NY Cal.	
Korea Exchange Bank	Ill.	NY Cal.	Cal.-Korea Exchange Bank of California	Sanwa Bank	Ill.	NY Cal.	Cal.-Sanwa Bank of California (4)
Kyowa Bank		NY Cal.		Standard and Chartered Banking Group Limited	Ill. NY(2) Wash.	NY Cal.	Cal.-Chartered Bank of London (14)
Lloyds Bank Limited	NY Ill.		Cal.-Lloyds Bank California (94)	Sumitomo Bank	Ill.	NY Cal.	Cal.-Sumitomo Bank of California (19)
Mitsubishi Bank		NY Cal.	Cal.-Mitsubishi Bank of California (3)	Swiss Bank Corporation	NY(2) Ill.	Cal.	
Mitsui Bank		NY Cal.	Cal.-Mitsui Bank of Calif.	Swiss Credit Bank	NY	Cal.	

FOREIGN BANKS WITH OFFICES IN MORE THAN ONE STATE
(SEPTEMBER, 1975)
(CONT'D)

Parent Organization	Branch	Agency	Bank	Parent Organization	Branch	Agency	Bank
Taiyo Kobe Bank	Wash.	NY Cal.					
Tokai Bank		NY Cal.	Cal.-Tokai Bank of California				
Toronto Dominion Bank		NY Cal.	NY-Toronto Dominion Bank Trust Co.; Cal.-Toronto Dominion Bank of California (2)				
Union Bank of Bavaria	NY Ill.						

CSBS

OFFICE OF THE PRESIDENT

September 8, 1976

Honorable Thomas J. McIntyre
Chairman
Senate Subcommittee on Financial
Institutions
Dirksen Building--Room 5300
Washington, D. C. 20515

Dear Senator McIntyre:

RE: International Banking Act of 1976 (H.R. 13876)

On August 31 it was my pleasure as President of the Conference of State Bank Supervisors to testify before your Subcommittee on the above bill. In accordance with your request, I am responding in behalf of the Conference to several questions which arose during my testimony.

(1) The Federal Reserve Board's suggestion that Section 5 of H.R. 13876 be deleted in favor of Section 3(g) of S. 958. (Page 38 of transcript)

The Federal Reserve Board's recommendations would provide that a foreign branch or agency could not be established outside a foreign bank's state of principal banking operations unless a state-chartered domestic bank similarly located could also establish such out-of-state operation.

The Conference finds the above recommendation objectionable. It is our view that the branching provisions affecting either domestic or foreign banking operations should be strictly in accordance with state law, consistent with the principles of the McFadden Act. The provisions recommended by the Federal Reserve Board would have the undesirable effect of restricting a state's ability to invite an out-of-state foreign banking office into its borders by

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tying to that invitation a requirement that a state-chartered commercial bank similarly located out of state could also establish an office in the secondary state. This would be contrary to the provisions of the McFadden Act and would impinge on the ability of a state to determine the type of banking activity permitted within the state. As indicated elsewhere in this letter, the Conference would favor the amendment to Section 5 of the bill as proposed by Representative Robert Stephens.

Foreign bank agencies would also be subject to the one-state restriction under the proposal recommended by the Federal Reserve Board. The Conference objects to this additional, and unwarranted restrictive provision. As pointed out in our testimony, large domestic banks through their bank holding company subsidiaries, Edge Act Corporations, loan production offices and other bank-related functions carry on a far greater interstate banking business than do foreign banking institutions through their multi-state locations in this country. To illustrate the extensive interstate bank-related activities of large domestic banks, I am attaching a reprint of a series of American Banker articles reflecting that 13 bank holding companies in this country have bank-related affiliates in some 43 states and operate some 1,500 offices outside of the state in which they are headquartered.

(2) If we delete Section 7(e) could CSBS live with the rest of Section 7? (Page 41 of transcript)

As pointed out in our testimony, we strongly oppose Section 7(a) because it is our consensus view that the Fed does not need reserve-setting authority over all state-chartered domestic commerical banks let alone state-chartered foreign branches, agencies or commercial lending companies in order to carry out the Fed's monetary policy responsibilities. Furthermore, the asset-size test recommended by the Fed is discriminatory in that our domestic banks are not subject to this arbitrary standard.

The Conference notes that the Fed is now recommending that compulsory affiliation for reserve-setting purposes be expanded to cover foreign banks organized as subsidiaries. The Conference objects to this proposed extension for the reasons cited above.

CSBS also objects to the provisions in Section 7(c) & (d) extending the Fed's authority over state-chartered foreign banking institutions as though they were member banks. These provisions, many of which would duplicate state banking department supervision, are completely unwarranted. There has been no showing whatsoever that under state regulation these foreign

banking entities have engaged in unsound banking practices or in a manner contrary to our national interests. In addition, the cumulative effect of these provisions would likely lead some foreign banking organizations to convert to a federal charter to escape a duplicatory level of regulation, namely that imposed by state authorities.

The Conference would be pleased to furnish the Federal Reserve Board with all information relative to the operations of state-chartered foreign banking organizations for which it could demonstrate a need, but CSBS believes provisions of Section 7 to be unwarranted in their extension of federal authority and in their derogation of the authority of state banking departments.

(3) The Federal Reserve Board's and the Treasury Department's proposal to permanently grandfather the existing securities affiliates of foreign banks under Section 8. (Page 42 of transcript)

CSBS agrees that if Section 8 of the bill is to be fair and supportable, there should be permanent grandfathering of the securities affiliates of foreign banks. The reasons advanced by Mr. George H. Dixon, Deputy Secretary of the Treasury, for grandfathering securities affiliates are well stated. The Conference believes, however, that the grandfathering date of December 3, 1974 is an unreasonable notice date. It is suggested that the grandfathering date become effective on the date the Senate Banking Committee reports out a bill on this matter, should the Committee decide to act on this proposal.

(4) Should the Comptroller have authority to establish federal branches or agencies of foreign banks in any state, without reference to state law? (Page 42 of transcript)

It is the consensus of opinion of the Conference of State Bank Supervisors that a state should have the authority to structure the financial institutions within its borders in a manner which it believes best serves the needs and interests of its residents, and that in the absence of some compelling national interest -- which we do not believe present in this situation -- the federal government should not preempt state statutes or regulations in this area.

(5) The Treasury Department suggests that Section 9 be stricken from the bill. (Page 44 of transcript)

The "guidelines" proposed by this section have not been considered by the Conference to be as serious a source of contention as other provisions which we have addressed. However, it would appear

that this section should be stricken from the bill. It applies only to foreign banks, and secondly it is not believed that this section would provide safeguards not already in existence to protect domestic deposits in foreign banks or to preserve our national interests. As the Conference has indicated, the State Bank Supervisors in New York and California -- where the vast majority of foreign banking assets are located -- have followed the procedure of conferring with appropriate State Department personnel to make certain our national interests are safeguarded in connection with entry questions.

(6) The Stephens and the Rees--Murphy amendments. (Page 45 of transcript)

We support the amendment offered by Representative Stephens to Section 5 of the bill to permit multi-state location of foreign branches as determined by state law. We also support the amendments offered by Representative Stephens restricting, or deleting, provisions of Section 7.

The Rees--Murphy amendments would require that within three years from the date of enactment of this bill the Fed in consultation with the Securities and Exchange Commission prescribe regulations to separate commercial banking activities of foreign banks in the U.S. from investment activities. It would further require that at least once in each three-year period after enactment of the bill the Federal Reserve Board review the securities activities of foreign banks to determine whether they should be terminated.

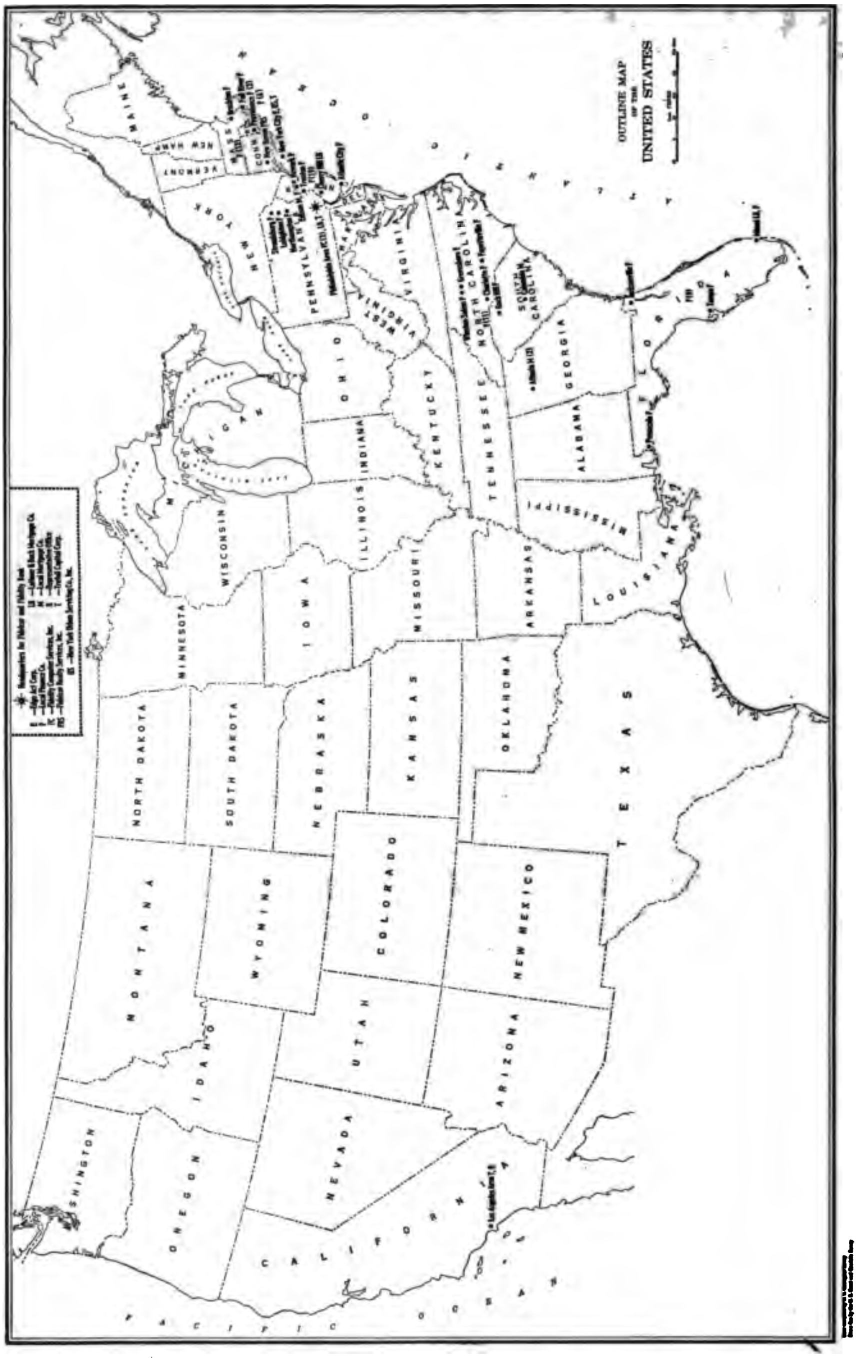
The Conference is of the opinion that the provisions of the Rees--Murphy amendment would lead to considerable uncertainty and that permanent grandfathering of securities affiliates of foreign banks would represent the most equitable solution and would lessen possible retaliation against U.S. banks operating abroad.

Sincerely,

John B. Olin
Superintendent of Banks
State of Oregon - President
Conference of State Bank
Supervisors

JBO:drj

Attachment


OUTLINE MAP OF THE UNITED STATES
MAINE
NEW HAMP
VERMONT
NEW YORK
PENNSYLVANIA
WEST VIRGINIA
VIRGINIA
NORTH CAROLINA
SOUTH CAROLINA
GEORGIA
FLORIDA
ALABAMA
MISSISSIPPI
LOUISIANA
TENNESSEE
KENTUCKY
OHIO
INDIANA
ILLINOIS
MICHIGAN
WISCONSIN
MINNESOTA
IOWA
MISSOURI
ARKANSAS
TEXAS
OKLAHOMA
KANSAS
NEBRASKA
SOUTH DAKOTA
NORTH DAKOTA
MONTANA
WYOMING
COLORADO
NEW MEXICO
ARIZONA
UTAH
NEVADA
IDAHO
OREGON
WASHINGTON
CALIFORNIA
PACIFIC OCEAN

[Reprinted from American Banker, Feb. 9, 1976]

92 Fidelcor Non-Bank Units in 10 States

(By Michael Quint)

New York.—The $2.9 billion-asset Fidelcor, Inc., Philadelphia, Pa., holding company for the $2.3 billion-deposit Fidelity Bank, has non-bank subsidiaries with 92 offices in 10 states, not counting offices in the Philadelphia area where it is headquartered.

In addition, Fidelity Bank has 82 offices in southeastern Pennsylvania and an Edge Act subsidiary in New York. The bank also maintains a representative office in Los Angeles.

The non-bank subsidiaries of the holding company are engaged in the business of consumer finance, including second mortgage lending, selling and reinsuring of credit-related insurance, commercial finance, mortgage banking, real estate advisory services, management consulting, data processing services, and small business investment.

The most geographically dispersed of the non-bank subidiaries is Local Finance Corp., a Providence, R. I. based consumer finance company with 76 offices in Rhode Island, Massachusetts, Pennsylvania, New Jersey, North Carolina, South Carolina, and Florida. The offices in Pennsylvania are not in counties where Fidelity Bank is permitted to branch. When the consumer finance company was acquired with Fed approval in May, 1973 it had 66 offices in all the above states except Florida.

At one time Local Finance had 21 offices in Florida, all opened de novo and approved by the Federal Reserve between October, 1973 and February, 1974. However, since mid-1975 consolidations and closings of these offices have reduced the number to 12. In the same period Local Finance closed two offices in New Jersey.

The Federal Reserve approvals for the Local Finance offices in Florida said they were engaged in a general consumer finance company business, including making second mortgage loans, and selling credit related life, accident and health insurance and selling casualty insurance on collateral securing loans.

The second mortgage lending activity is conducted in other states where Local Finance has offices, but it is through Local Mortgage Corp., a company Fidelcor created to specialize in that activity. Local Finance offices might make some second mortgage loans, but it is a minor part of their business, a holding company official said.

Local Mortgage, headquartered in Atlanta and with active offices in Edison, N.J. and Columbia, S.C., was approved by the Federal Reserve in October, 1973. It was initially organized as a subsidiary of Local Finance but later was spunout of that company.

Besides making second mortgage and home improvement loans at the retail level, Local Mortgage purchases first and second mortgage loans in bulk from other dealers, especially in the southeast. It does not originate first mortgage loans.

Because of state laws the holding company was required to obtain Federal Reserve approval for Local Mortgage to operate in each of the Local Finance offices in New Jersey, Rhode Island, Massachusetts and North Carolina. In South Carolina approval was obtained for an office in Columbia where no Local Finance offices existed. Approvals for the Local Mortgage activities in these states were obtained during the first quarter of 1974.

At one time Local Mortgage had its own offices in the Boston area; Edison, N.J.; Greensboro, N.C.; Columbia, S.C., and Atlanta. A spokesman for Local Mortgage said that although the company continues to maintain licenses to operate in Massachusetts, and North Carolina; the Boston and Greensboro offices have been closed.

In Atlanta the activity of the Local Mortgage office was described as "making or acquiring, for its own account or for the account of others, loans and extensions of credit such as would be made by a mortgage or finance company, such as first and second mortgage loans including home modernization contracts; servicing all such loans or extensions of credit to the extent that such business will be conducted at and out of Atlanta, Georgia office."

The Local Finance offices sell credit related life, accident and health insurance, according to a holding company spokesman, and in most states reinsure these policies through Master Life Insurance Co., a subsidiary of Local Finance. In the case of the Florida offices, which were approved by the Federal Reserve,

sales of both credit related life, accident and health insurance as well as casualty insurance on property used as collateral for loans was permitted. In December, 1973 permission was given to reinsure the credit life, accident and health policies through Master Life.

The Fed approvals for the Local Mortgage offices also permitted sales credit life, accident and health insurance and casualty insurance on collateral securing loans. The approvals also permitted reinsurance of the credit life, accident and health insurance in most states where it operates. Sales of mortgage redemption insurance were also permitted through Local Mortgage in Rhode Island. The offering and reinsurance of joint coverage on credit life insurance covering co-signers and co-makers was permitted in Rhode Island and North Carolina. Local Mortgage in Massachusetts was permitted to sell credit life, accident and health, mortgage life and disability, accidental death and dismemberment insurance, and casualty insurance on collateral for loans. Though Master Life Local Mortgage was permitted to reinsure the consumer type credit life, accident and health insurance sold in most states.

When the Federal Reserve approved Fidelcor's acquisition of Local Finance, it attached the condition that the casualty reinsurance subsidiary, Plantations Insurance Co. must be divested. Also, the Fed required that sales of level credit life insurance be sold only as a convenience, so long as the premium income of these sales was not a significant portion of all the premium income of the holding company.

Reinsurance of credit-related insurance for consumer type loans of the bank through Master Life Insurance Co. was permitted in October, 1975 after obtaining Fed approval.

In late 1974 the holding company obtained Fed approval for the Wayland Agency, Inc. to act as an agent for credit-related insurance sold by Local Finance in Florida. According to a holding company spokesman Wayland functions only as an agent for sales of casualty insurance, specifically fire.

Trefoil Capital Corp., New York, is a commercial finance subsidiary which also has offices in Philadelphia and Beverly Hills, Calif. The company, formerly known as Commercial Capital Corp. was acquired by Fidelcor with Fed approval in April, 1973. In September the similar activities of the bank were transferred to the new company. An official of the company said they do various kinds of asset-based financing, but not straight factoring.

The Beverly Hills office is the result of the acquisition of most of the assets of Keen Factors, Inc. in April, 1975.

Local Finance, Local Mortgage, and Trefoil Capital are all owned by Fidelcor Financial, which in turn is a direct subsidiary of the holding company. Fidelcor Financial is the holding company for the three funds using subsidiaries but is not a management organization, it was explained.

Fidelcor Realty Services, Inc. New Haven, Conn. is a direct subsidiary of the holding company whose main activity is providing real estate financing services. Until January, 1976 the company was known as CCT Financial Services Corp. The company, which has only the New Haven location, was created de novo and was approved by the Fed in September, 1973. It is 20% owned by Connecticut Commercial Travelers Mutual Insurance Co., New Haven.

In permitting CCT Financial in February, 1975 the Federal Reserve described its activities as "acting as investment or financial advisor to the extent of providing portfolio investment advice, particulary in real property interests; and selling insurance protecting the collateral securing the extensions of credit that CCT or some other direct or indirect subsidiary of Fidelcor has made including builders' risk insurance which may include liability insurance sold in conjunction with the physical damage insurance contained in and as part of such builders' risk policy package, as a matter of general practice."

Fidelcor Realty is not a direct lender, but does act as a middleman for real estate and commercial financial transactions, and provide bookkeeping services. These activities are aimed at thrift institutions and commercial bank customers of CCT Mutual in Connecticut and Rhode Island.

The mortgage banking activities of Fidelcor are conducted through three major direct subsidiaries of the holding company Latimer & Buck, Inc., and Latimer & Buck Mortgage Co., both of Philadelphia; and New York Urban Servicing Co., Inc. Latimer Buck, Inc. was acquired by the holding company in November, 1969 and must be approved by the Fed before the end of 1980 or else be divested.

Latimer & Buck, Inc. and New York Urban Servicing are primarily engaged in origination and servicing of mortgages for large, income producing projects.

Both are direct subsidiaries of the holding company. New York Urban Servicing was acquired with Fed approval in May, 1974 and has only one office in New York.

In approving the NYUS acquisition the Fed allowed the company to continue to service some sale-leaseback transactions for real property. The Fed noted that in the agreements the lessor recovered its costs during the intitial term of the lease and that the lessors interest was generally ended within 50 years.

Latimer & Buck, Inc. has only one office in the Philadelphia area.

Latimer & Buck Mortgage Co., formerly known as Trefoil Mortgage Co. is a direct subsidiary of the holding company with offices in the Philadelphia area, Miami, and Cherry Hill, N.J. The company was created at the end of 1971 with Fed approval as the bank spun-out its mortgage banking activities. The company originates and services residential mortgages, provides construction financing, and administers the mortgage portfolio of Fidelity Bank.

Latimer & Buck Mortgage was permitted by the Fed to sell life and disability insurance to persons with a mortgage originated or serviced by a Fidelcor subsidiary.

A spokesman for the holding company observed that although the bank still originates a small amount of mortgages, the bulk of those activities have been transferred to the non-bank subsidiary.

Latimer & Buck Advisors, Inc. is a real estate advisory firm which provides advice to Fidelco Growth Investors, a publicly owned real estate investment trust. This is the only activity of the company, which is owned 50/50 by the holding company and Latimer & Buck, Inc.

Fidelity Computer Services, Inc. is a direct subsidiary of Fidelity Bank providing computer services to financial institutions. The company, which has two offices in the Philadelphia area, was created in January, 1972 after obtaining Federal Reserve approval the previous month.

An earlier company, Fidelity Optimation Services, Inc., was spun-out of the bank and approved by the Fed, but was incorporated into the new Fidelity Computer Services.

Fidelity Computer sells information systems to banks which have their own computer equipment, systems and computer use to banks that do not have a large investment in hardware, and optical scaning services.

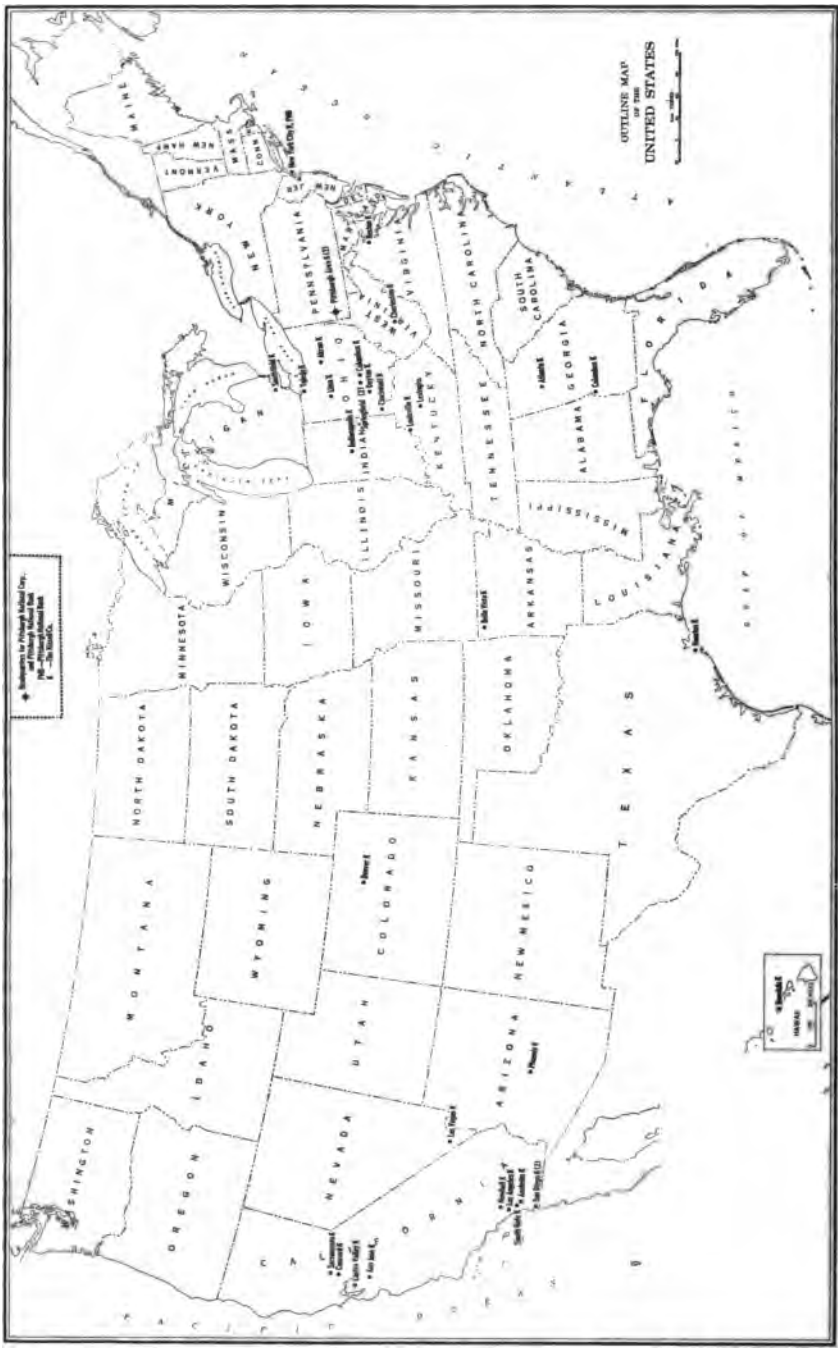
Fidelco Associates, Inc. is a general consulting firm created in November, 1970 and is a direct subsidiary of the holding company. The company has not yet been approved by the Fed, so such approval must be obtained by the end of 1980 or else it must be divested. The Federal Reserve has not yet determined that general management consulting services for companies other than affiliates of the holding company is a banking related activity permitted to bank holding companies.

Fidelity Credit Corp. is a direct subsidiary of the holding company that sells commercial paper and lends the proceeds to other subsidiaries of the holding company. The company which was created in 1969 has not been approved by the Federal Reserve.

Trefoil Investment Corp. makes equity investments in companies, but is not a licensed Small Business Investment Company. It is jointly owned by the holding company and by Latimer & Buck Advisers, Inc. The company was organized in 1969 before the 1970 Amendments to the Bank Holding Company Act, so Federal Reserve approval is necessary if it is to be retained beyond 1980.

In late 1975 Fidelity Bank announced that it intended to join the Interbank Card Association, Inc. licensor of Master Charge credit cards. According to a spokesman for the bank they intend to mail letters advising customers of the card's availability soon, but applications are not yet being accepted. The credit card accounts will be serviced through a division of the bank, a holding compay official said.

Fidelity International Bank is a direct subsidiary of the bank located in New York. The Edge Act corporation makes investments in foreign companies as well as performing foreign-related banking activities. Fidelity Bank's interest in the Edge Act started in 1971, a company official said, and by 1974 the Edge Act was wholly owned by the bank.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[Reprinted from American Banker, Jan. 21, 1976]

35 Nonbank Offices Operated in 15 States by Pittsburgh National Corp. Subsidiaries

(By Michael Quint)

New York.—The $2.8 billion-asset Pittsburgh National Corp., holding company for the $2.2 billion-deposit Pittsburgh National Bank, has nonbank subsidiaries with 35 offices in 15 states, not counting Pittsburgh where its main offices are located.

The bank, besides 102 offices in six counties in southwestern Pennsylvania, controls an Edge Act corporation. By moving its legal residence from Pittsburgh in Allegheny County to Jeannette in Westmoreland County in 1973 the bank increased its branching area to nine counties, but so far has offices in only six of them. Pennsylvania law permits branching in counties contiguous to that where the bank has its headquarters. The bank also has an office in New York City to keep closer contact with the securities markets.

The only subsidiary of Pittsburgh National Corp. with any geographic spread is The Kissell Co., a Springfield, Ohio, mortgage banking company with 35 offices in 15 states. Kissell was acquired in November, 1969, and the Fed gave the holding company permission to retain the shares in October, 1974.

A spokesman for the holding company said that the activities of the mortgage banking firm have not been broadened into any new product lines since the acquisition. He noted that some of Kissell's activities, such as land development, were terminated because it was not a permissible activity for a bank holding company.

Since its acquisition by Pittsburgh National Corp., Kissell has expanded through both opening new offices and purchasing the mortgage servicing portfolios of several smaller mortgage banking companies.

When the Fed approved the application by the holding company to retain Kissell, it noted that since the affiliation with Pittsburgh National the mortgage banking company had added seven offices in five states. At the time of approval the company had 28 offices in 14 states according to the Federal Reserve, compared with 17 offices in seven states when the companies announced the planned acquisition in March, 1969.

The first offices approved by the Federal Reserve were in Columbus, Ga.; Houston, and Concord, Calif., in May, 1975; followed by San Diego, San Francisco and Sacramento, Calif., in June. The California offices were for a new company called Kissell Finance, Inc., a subsidiary of Kissell Co. In August, 1975, approval was received for a new office in Las Vegas and in September, 1975, another San Diego office was permitted. Currently the holding company has pending an application to consolidate two of its California offices.

Companies whose mortgage service portfolios have been acquired by Kissell include Kennelly-Dugan Co., Phoenix, in September, 1970; Houston Mortgage Co., in December, 1970; Thomas S. Hargesheimer & Co., Jenkintown, Pa., in April 1971, and Jackson-Cross Co., Philadelphia, in June, 1972.

More recently in the first quarter of 1974 the mortgage banking firm acquired part of the mortgage servicing portfolios of McMillan Mortgage Co., Los Angeles and R. H. Lapin & Co., Inc., San Francisco.

Kissell has been unsuccessful in two other attempts to acquire existing mortgage banking companies. In April, 1974 the Fed denied an application for Kissell to acquire Buhler Mortgage Co., Inc., Sacramento, because it would eliminate existing competition. The Fed claimed that Kissell had the resources to expand its California operations de novo.

In August, 1974, Kissell obtained approval to acquire Central Mortgage & Investment Co., Colorado Springs. The company also had offices in Denver and Pueblo, Colo. The acquisition was never consummated because the companies said by the time Fed approval was obtained they could no longer agree on a purchase price. The acquisition was announced in March, 1973, and was approved by the Fed in August, 1974.

Pittsburgh National Mortgage Corp. is another direct subsidiary of the holding company with offices only in Pittsburgh. When it was approved in January 1973, the Fed described the new company as an "entry into mortgage banking which includes making and selling mortgages for its own account and the accounts of others." A company official explained the Pittsburgh National Mortgage functions as a middle-man in the making and placing of short- and long-term commitments for commercial properties.

PINACO, Inc., is a direct subsidiary of the holding company which acts as agent for sales of group life, accident and health insurance related to extensions of credit by the bank. The activity is the same as was conducted by Bankers Insurance Services, Inc., an earlier subsidiary approved by the Fed in July, 1973. The name was changed when the holding company learned that others were already using it.

The initial application for the insurance agent activity described the proposed company as acting as an agent for any insurance directly related to credit or other financial service extended by an affiliated bank or bank-related company. In addition it would sell insurance when it was a matter of convenience to the purchaser. Also, the proposed company would have sold any insurance in a community with a population less than 5,000 or that had demonstrated inadequate agency facilities.

That first application, received by the Fed in December, 1972, was first delayed and then reactivated with a different description of activities. In July, 1973, it was described as acting as agent for credit-related life, accident and health insurance, mortgage redemption insurance, physicial damage insurance on certain items of tangible personal property and mobile home owners insurance on mobile homes.

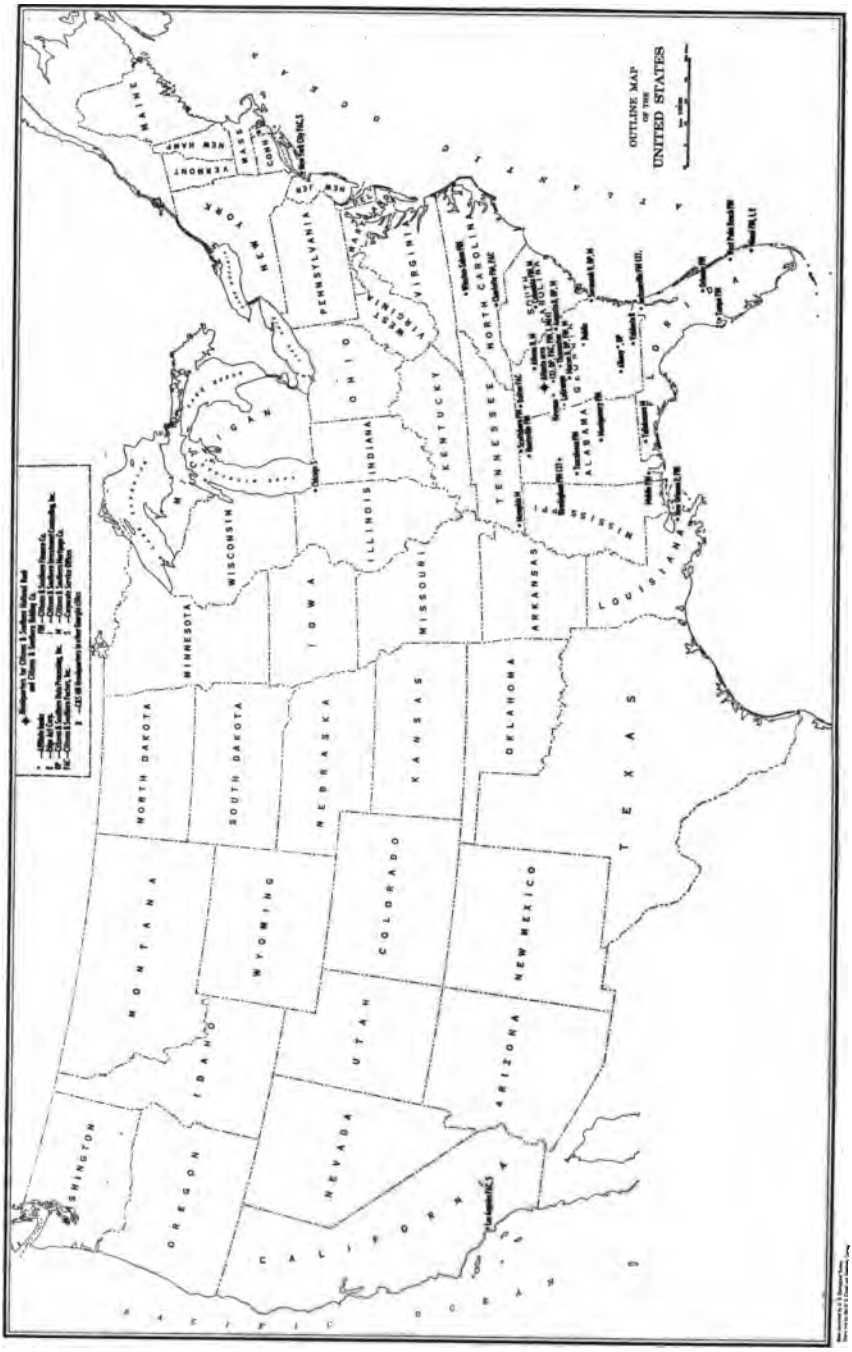
Although PINACO was authorized by the Fed to sell mortgage redemption insurance, an official of the holding company noted that the company does not act as an agent for sales of mortgage redemption insurance to customers of The Kissell Co.

In May, 1975, the Fed gave PINACO approval to engage in the new activities of "making, acquiring and servicing of loans and other extensions of credit for its own or others account." An official of the holding company observed that this could cover a wide range of commercial lending activities, but that current plans were for the subsidiary to originate and package loans, primarily mobile home loans, and then to service these loans for investors.

Pittsburgh National Discount Corp., formed in 1972, is a subsidiary of the holding company which sells its own commercial paper. Most of the proceeds of the commercial paper sales, which are guaranteed by the holding company, are advanced to Kissell Co.

Pittsburgh International Finance Corp. is a direct Edge Act subsidiary of the bank formed in 1964. Its main activity is making investments in foreign companies.

Pittsburgh National Bank is a card-issuing member of National BankAmericard, Inc., licensors of BankAmericard. These accounts are serviced internally through a division of the bank.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[Reprinted from American Banker, Jan. 13, 1976]

Citizens & Southern NB, Atlanta, Nonbanking Subsidiaries Have 40 Offices in Nine States

(By Michael Quint)

New York.—The $2.2 billion-deposit Citizens and Southern National Bank, Atlanta, has non-bank subsidiaries which it owns through a subsidiary holding company with 40 offices in nine states; plus its headquarters.

Besides the 91 offices of C&S National itself, the holding company called C&S Holding Co. controls another eight Georgia banks with a total of 37 offices. The national bank also controls Edge Act corporations in Miami and New Orleans and maintains corporate services in New York, Los Angeles, and Chicago.

The non-banking activities are conducted through subsidiaries of the holding company. These companies, which have all been approved by the Federal Reserve Board, are engaged in the businesses of consumer finance, mortgage banking, factoring, leasing, offering investment counseling and providing trust services, underwriting insurance, and providing data processing services.

The most geographically dispersed of the holding company's subsidiaries is also the newest—the Citizens and Southern Finance Co. with 19 offices in six states. The company was known as Ison Finance Co. before being acquired in May, 1974, after receiving Fed approval in April of that year.

Earlier, in January, 1974 the Fed denied a bid by the bank and holding company to acquire the finance company because of possible adverse effects on competition and an agreement between the companies to limit future competition.

Since acquiring Ison Finance, a C&S official explained that they have been unable to introduce new product lines such as mobile home, small appliance or second mortgage lending mentioned in its application to the Fed, because of economic conditions and costs of funds.

The Fed's approval contained a condition that the Atlanta and Macon, Ga. offices of the finance company be divested by May 24, 1976. According to a C&S official they intend first to extend that deadline and then have the order changed. There are no buyers for those offices except by steeply discounting the value of their receivables, it was explained.

The 19 finance company offices are linked to headquarters by the Action system, a computer program and network of installations provided by Control Data Corp. This computer system was installed after the purchase of Ison by the holding company.

The Citizens and Southern Mortgage Co., with 12 offices in four states was created in 1973 with the Fed's approval from the mortgage banking department of the bank. Besides the existing offices of this subsidiary, C&S obtained Fed approval for over 10 offices during 1973 which it did not open or else opened for a short time.

An official of the holding company explained that many of the offices which they applied for were to be offices of the mortgage banking company, but that their initial activity was to be primarily making second mortgage loans.

Outside of Georgia, C&S received approval during 1973 for offices in Hilton Head Island, S.C. and Birmingham, Ala., which it opened but then closed. It never opened offices in Orlando, Fla.; Greensboro, N.C., Mobile, Ala.; Alexandria, Va.; Towson, Md.; and Jackson, Miss. though it received permission to do so. During the last year the holding company closed offices in Dalton and Valdosta, Ga. and Charlotte, N.C. Also, the headquarters were relocated to Tucker, Ga. an Atlanta suburb.

The approved offices were never opened because of conditions in the real estate market and the fact that they would not be immediately profitable, even if they were to concentrate on second mortgage lending.

The mortgage subsidiary of C&S Holding Co. makes available mortgage redemption insurance to its customers through Citizens and Southern Agency.

The bank is involved in mortgage banking only to a minor extent since the separate subsidiary was created, officials of the holding company said.

The mortgage company advises C&S Realty Investors, a publicly owned real estate investment trust.

C&S Factors, Inc., is a subsidiary of the holding company with offices in Atlanta and Dalton, Ga.; Charlotte, N.C., Los Angeles and New York, The company was created with Fed approval out of the factoring department of C&S National

Bank, which in turn was stated after the acquisition of Joel Hart Factors by the bank in 1965.

Citizens & Southern Equipment Leasing, Inc., with one office in Atlanta is the successor to the leasing activities of first the bank and then the factoring subsidiary. The company was organized with Fed approval as a subsidiary of the holding company in April, 1974. C&S received approval for another equipment leasing office in Dallas in March, 1974, but that office has been closed.

Citizens & Southern Investment Counseling, Inc. provides investment management services from offices in Atlanta, and Miami. The company was created with Fed approval in late 1971 when the activity was spun out of the bank and into a separate subsidiary of the holding company. A major activity of the company is providing investment advice to the trust department of C&S National Bank. It offers advice to other bank trust departments, individuals and institutions.

C&S Investment Counseling at one time had additional offices in Birmingham, Ala.; Hilton Head Island, S. C.; and New Orleans, but these offices were closed in 1975. The South Carolina and New Orleans offices are still chartered, but are now inactive and maintain only a telephone answering service.

Coastal and Southern Corp. is an active subsidiary of the holding company that was approved by the Fed in July, 1973. The company was to operate a trust business on Hilton Head Island, S. C. An official of the holding company noted that plans for Coastal & Southern are indefinite. He noted that its proposed activities were different than Investment Counseling since Coastal & Southern was to have trust powers enabling it to handle wills and estates.

Citizens & Southern Life Insurance Corp. is a subsidiary of the holding company engaged in underwriting credit life and disability insurance placed by other C&S National bank affiliates. The insurance company is the successor to American Southern Life Insurance which C&S acquired after obtaining Fed approval in July, 1969.

From 1969 to 1974 C&S also had a subsidiary insurance agency which acted as a broaker for credit related property and casualty insurance. However, the holding company sold the agency after encountering strong resistance to expanding its activities from the National Association of Insurance Agents. The holding company wanted the agency to offer general insurance services as a customer convenience and to write other kinds of insurance related to the provision of financial services by C&S National Bank or its affiliates.

Although the direct business of C&S Agency was sold, the agency continues to exist, according to a C&S official, to handle sales of special types of financially related insurance. He said the subsidiary of the holding company acts as an agent for sales of mortgage redemption insurance, both single and dual interest automobile insurance, physical damage insurance on mobile homes, and insurance for dealers involved in the sale of sales finance contracts.

The two Edge Act corporations are organized as subsidiaries of the anchor bank. They are Citizens & Southern International Bank, Miami, organized in 1969 and Citizens and Southern International Bank of New Orleans, organized in 1971.

Besides the anchor bank, there are eight additional Georgia banks in the C&S system. These banks are controlled by the holding company. They are: The Citizens & Southern DeKalb Bank, Avondale Estates; the Citizens & Southern Bank of Dublin; The Citizens and Southern Bank, East Point, the Citizens & Southern Emory Bank, Decatur; The Citizens & Southern Newnan Bank; the Citizens & Southern Bank of Thomaston; and the Citizens & Southern Bank of West Georgia, LaGrange.

Besides these banks, which the holding company controls, it held more than five percent of the stock in another 25 Georgia banks. Six of these banks are being merged into the eight controlled banks, after litigation with the Justice Department that finally reached the Supreme Court. Stock of the other 19 banks is held by trustees of the C & S pension and profit sharing funds who are managing sales of the stock to the public. There is no deadline for sale of the stock. C & S officials noted that the company no longer has any control over the stock or its disposition.

Of the six banks affected by the Supreme Court decision, the Citizens & Southern Bank of Chamblee, Citizens & Southern Park National Bank, Citizens & Southern South DeKalb Bank and Citizens & Southern Bank of Tucker were merged into Citizens & Southern Emory Bank. Citizens & Southern Bank of North Fulton and Citizens & Southern Bank of Sandy Springs were merged into the Citizens & Southern Bank, East Point.

Citizens & Southern Data Processing, Inc. is a subsidiary of the holding company with five offices in Georgia. The first of these offices was approved by the Fed in

May, 1973. The Fed's approval describe the activities as providing bookkeeping or data processing services for the holding company and its subsidiaries as well as providing banking and financial related services to others.

Citizens & Southern Servicing Co., Atlanta is a subsidiary of the holding company that services mobile home loans. The company, was approved by the Fed in October, 1973. Besides originating and packaging the loans originated through a network of 35 dealers in 228 locations in the Southeast, the company also sells the loans to investors and retains the servicing.

Citizens & Southern Financial Corp. was a subsidiary of the holding company that was liquidated in November, 1974. The assets of the company, primarily retail sales finance loans were sold to the various offices of C&S National Bank.

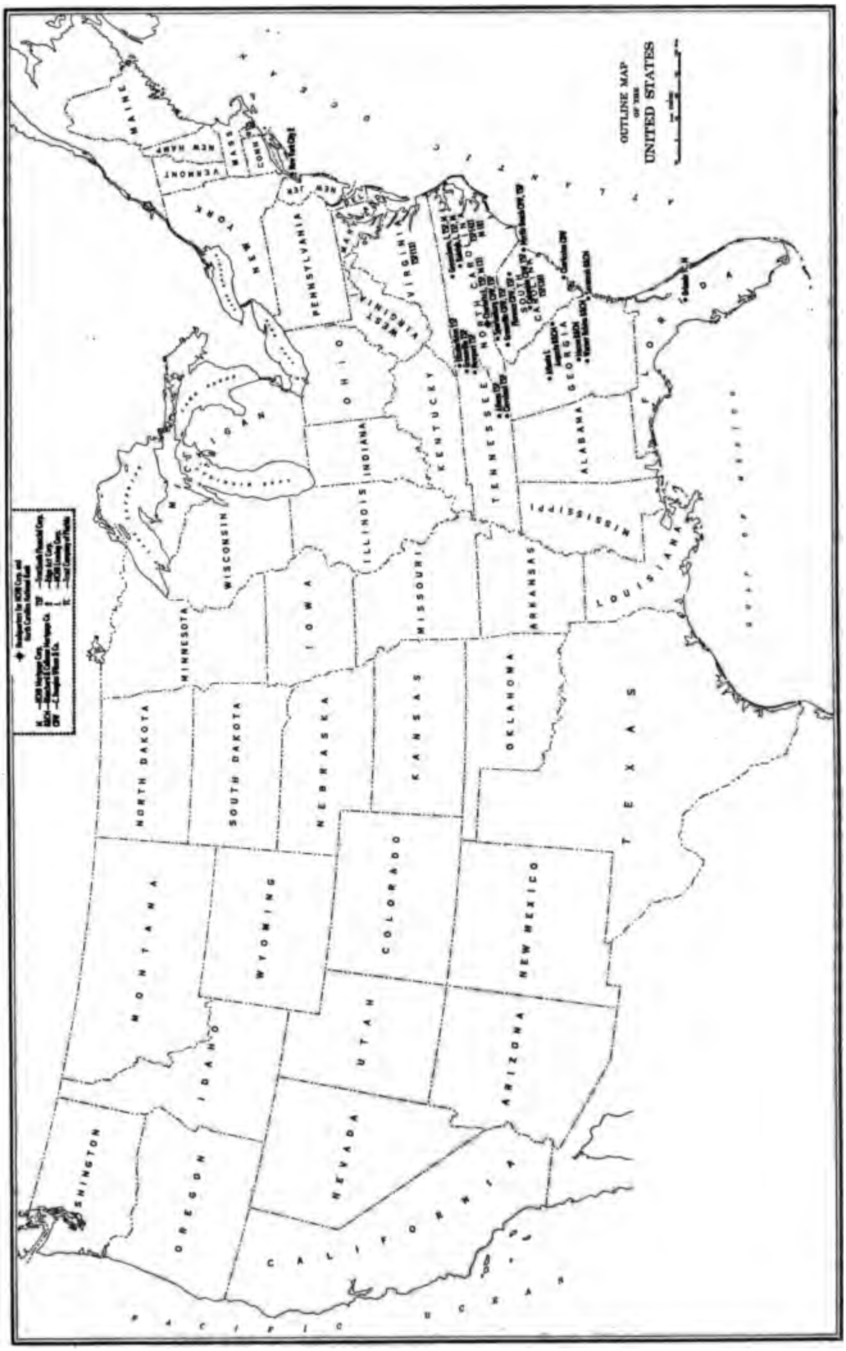
Citizens & Southern Credit Service Corp. is another subsidiary that has ceased to function. This company, which was active from 1968 to 1971, insured the small business loans made by C&S correspondents.

Citizens & Southern Community Development is in the process of liquidation, and is honoring its old commitments, but not taking any new projects. The subsidiary of the holding company was involved in making second mortgages, small business loans for minority businesses and developing low-income housing.

Citizen & Southern Capital Corp. was a small business investment company formed in 1959. It was switched from a subsidiary of the bank to the holding company in 1973.

A spokesman for the holding company noted that the bank's policy on small business loans is currently to handle them through the lending division of the bank.

C&S National Bank also maintains corporate service offices in New York, Los Angeles and Chicago.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[Reprinted from the American Banker, Jan. 6, 1976]

NCNB's 122 Nonbank Offices in 7 States

(By Michael Quint)

New York.—The $3.7 billion-asset NCNB Corp., holding company for the $2.6 billion-deposit North Carolina National Bank, Charlotte, has domestic nonbank subsidiaries with 122 offices in seven states plus its headquarters in Charlotte. In addition the anchor bank has 163 banking offices in 54 North Carolina cities and controls an Edge Act corporation in New York. North Carolina permits statewide branching.

The nonbank companies within NCNB Corp. are active in the fields of consumer finance, mortgage banking, selling credit related insurance, leasing, factoring, providing trust services, and real estate advice.

The holding company must obtain Federal Reserve Board approval to retain the consumer finance company, the largest of the mortgage banking subsidiaries, and the factoring company. If this approval is not received by the end of 1980, the companies must be divested.

TranSouth Financial Corp., Florence, S.C., a consumer finance company with 97 offices in North Carolina, South Carolina, Tennessee and Virginia, is the most geographically dispersed of the subsidiaries. The company was acquired by NCNB Corp. in June 1969, when it was known as Stephenson Finance Co., Inc. It is organized as a direct subsidiary of the holding company which must obtain Federal Reserve Board approval by the end of 1980 or else divest itself of TranSouth.

When NCNB Corp. acquired TranSouth, the consumer company had 59 offices. Since then it has added 29 offices through acquisitions and 10 offices which it opened de novo, a holding company official said. None of the acquired offices or those opened de novo were approved by the Federal Reserve, though the holding company official noted that in the past the Fed had an operating procedure permitting the acquisition of some assets without obtaining prior approval.

Two of the major acquisitions were the acquisition of Continental Acceptance Corp., Rocky Mount, N.C. in April 1970, and the purchase of 13 offices of Eastern Credit Corp. in the Tidewater region of Virginia in May 1974. A holding company official noted that Eastern Credit Corp. was in receivership when it was acquired.

In June, 1974 the holding company submitted an application to the Fed for the acquisition of 19 offices of Peoples Loan & Finance Corp., Marietta, Ga. That application was withdrawn in August, 1974 because terms of the proposed acquisition were not mutually advantageous for the two companies, a NCNB Corp. spokesman said. He added that the holding company did not receive any feedback from the Fed before it decided to withdraw the application.

Thomas I. Storrs, chairman of NCNB Corp. noted that TranSouth has not sought to introduce new product lines since it was acquired by the holding company. In discussing 1974 earnings, Luther H. Hodges Jr., chairman of the bank, said in April, 1975 that the consumer finance company would place more emphasis on direct consumer lending, rather than purchased sales finance loans because there is more control over the direct loans and they are of a higher quality. The 1974 annual report also noted reduced purchases of mobile home paper and paper secured by real estate.

The 97 TranSouth offices are linked by the RAPID on-line computer system with terminals in each office that immediately record all transactions through a computer in Des Moines, Iowa. The system was purchased from Dial Financial Corp., Des Moines. The central facility in Des Moines is linked to TranSouth headquarters in Florence, S.C., and every month a tape of the transactions are sent to the holding company's headquarters in Charlotte.

TranSouth sells credit related insurance to its customers through two subsidiary companies, Superior Life Insurance Co. for credit related life and accident and health policies and Superior Insurance Co for credit related insurance on physical property.

The NCNB Mortgage Group includes three separate companies with a total of 24 offices in North Carolina, South Carolina, Florida and Georgia.

NCNB Mortgage Corp. was spun out of the bank in December, 1968, and is now a direct subsidiary of the holding company. The company has not been approved by the Fed and must obtain such approval by the end of 1980 or else be divested, officials acknowledged. The company has 13 offices in North Carolina and one in Orlando, Fla.

Blanchard & Calhoun Mortgage Co., Augusta, Ga., is a mortgage banking subsidiary of NCNB Mortgage that was acquired in June, 1974, after obtaining Fed approval the previous month. The company has four offices in Georgia.

C. Douglas Wilson & Co., Greenville, S.C., is a mortgage banking subsidiary of the holding company that was acquired in August, 1972, after obtaining Fed approval in July of that year. The company has six offices in South Carolina.

Since acquiring C. Douglas Wilson, the holding company obtained permission from the Fed to open a new office in Myrtle Beach, S.C., in April, 1973, and also to act as an agent for the sale of credit related life and accident and health insurance to its customers.

All three of the mortgage banking companies are engaged in similar business and have many of the same investors who purchase the morgages they have originated. Holding company officials noted that the servicing of NCNB Mortgage and C. Douglas Wilson has been merged while Blanchard & Calhoun's servicing remains independent. The activities of the companies are coordinated, but each maintains its separate corporate identity and keeps its own financial agreements. The companies do make credit related insurance available to their customers.

Holding company officials noted that there is little mortgage banking activity within the bank since it transferred those activities to NCNB Mortgage Corp.

NCNB Leasing Corp. is a direct subsidiary of the bank with three offices in North Carolina and one in Atlanta. The company was organized in August, 1973, and holding company officials said they have no plans to organize it as a subsidiary of the holding company. As a subsidiary of the bank, the leasing company does not need approval by the Fed.

Officials noted that the leasing company actually makes the leases and does not function just as a marketing arm. They noted that nearly all the leasing activity within the holding company is channeled through the leasing company.

NCNB Leasing had at one time an office in Phoenix, Ariz., but in June, 1974, it was closed. Mr. Storrs noted that the Phoenix office did not fit the holding company's policy of concentrating its efforts in areas contiguous to its current markets.

NCNB Financial Services, Inc., Charlotte, is a factoring subsidiary of the holding company formerly known as Factors, Inc. The company was acquired in March, 1970, but must still obtain the Fed's approval by the end of 1980 or else be divested. The name was changed in 1971.

Trust Co. of Florida, Orlando, is a subsidiary of the holding company that provides trust, estate and investment management services. NCNB acquired the company in July, 1972, with Fed approval. The Florida chartered trust company is a nondepository fiduciary that provides general trust services. Besides its pension and profit sharing accounts, the trust company acted as the trust department for 12 small banks in central Florida at the time it was acquired. The company does not provide stock transfer services.

NCNB Corp. has plans to open another nondepository trust company in Camden, S. C., and has already obtained the necessary approval from the Fed. The proposed company, American Trust Co., Inc., was delayed by a legal dispute concerning the South Carolina legislature's right to enact laws prohibiting any corporation controlled by an out-of-state corporation from serving as executor, administrator or testamentary trustee in the state.

NCNB Corp. sought a Federal court ruling that the South Carolina laws denied equal protection of the laws in violation of the 14th Amendment to the U.S. Constitution. In September, 1974 a District Court permanently enjoined South Carolina officials from prohibiting American Trust's operations and in December, 1974 the Court of Appeals remanded the matter to the Fed. The Fed, which had first approved the application to the extent permitted by South Carolina law in March, 1973, approved the new trust company again in May, 1975 and later extended the date for starting the company to Jan. 29, 1976. A spokesman for NCNB said they still plan to start the new trust company but doubt that it will occur before the January deadline.

NCNB Tri-South Corp., is a subsidiary of the holding company which owns one-third of Tri-South Management Associates, the investment adviser to Tri-South Mortgage Investors, a publicly owned real estate investment trust based in Atlanta. The advisory company was formed in September, 1970 and still needs Fed approval.

NCNB International Banking Corp., New York is an Edge Act corporation organized as a subsidiary of the bank. The company received final approval from the Fed in June, 1973.

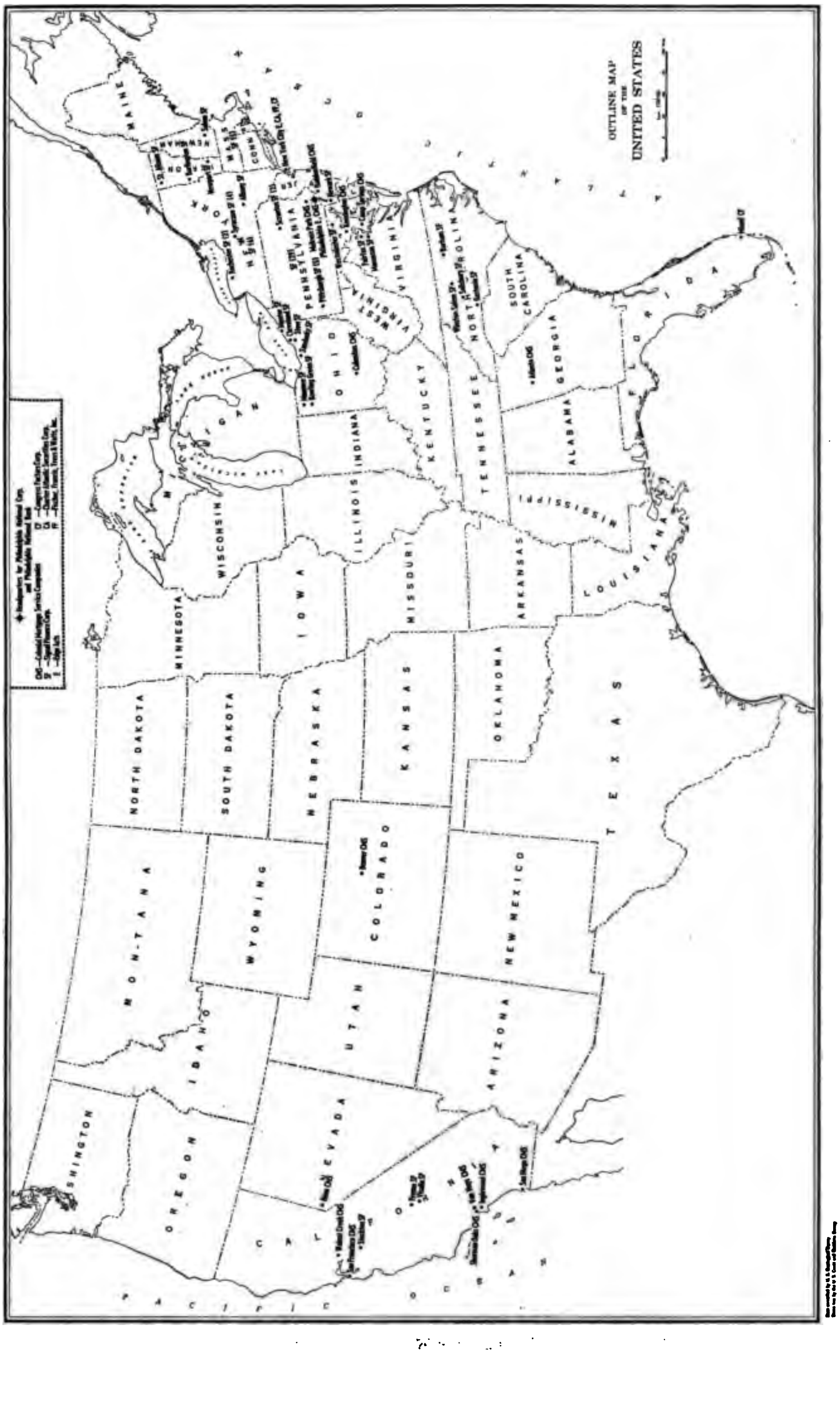
North Carolina National Bank is a member of National BankAmericard, Inc., licensor of BankAmericard. Servicing of these accounts is conducted internally through a division of the bank.

The bank is also active as an investment advisor. Since April, 1973 it has been the advisor and manager of Hatteras Income Securities, Inc., a closed end mutual fund.

Until December, 1975 the holding company was active as an investment advisor through Bullock-NCNB Co., a joint venture with Calvin Bullock Ltd., New York. Since its formation in August, 1971, the company, which NCNB Corp., had a 50% interest in, provided investment management and counseling for pension plans, profit sharing plans and tax-exempt institutions.

Mr. Storrs explained that the joint venture was dissolved because it was found that customers wanted an investment advisory service associated with the bank. The company was originally formed because the bank trust department was losing some business to investment management firms that offered advice but no trustee services.

American Commercial Agency, Inc., is a general insurance agency that was a subsidiary of NCNB Corp., from January, 1969 to January, 1974, when it was sold to Collier, Cobb & Associates, Chapel Hill, N.C. Holding company officials noted that the insurance agency was sold because of rulings of the Federal Reserve Board limiting bank holding companies to writing only credit related insurance. Separating the insurance agency from the holding company would "allow American Commercial to continue to grow in the most efficient, aggressive and profitable manner," they explained.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[Reprinted from American Banker, Dec. 29, 1975]

Phila. Natl. Nonbank Subsidiaries Give Varied Services in 94 Offices in 15 States

(By Michael Quint)

New York.—The $4.1 billion-asset Philadelphia National Corp., holding company for the $2.9 billion-deposit Philadelphia National Bank, has domestic nonbank subsidiaries with 94 offices in 15 states, plus its headquarters offices in Philadelphia.

In addition, the bank, which is the 26th largest in the nation, has 75 offices in six counties of southeastern Pennsylvania. Pennsylvania law limits the bank to branching only in counties contiguous to that of its headquarters. The bank also controls Edge Act corporations in Philadelphia and New York.

The nonbank subsidiaries of the holding company are engaged in consumer finance, mortgage banking, selling credit-related insurance and reinsuring insurance policies of its customers, offering real estate advice, factoring and other forms of commercial finance, securities trading, and investment management.

The consumer finance, factoring and some of the mortgage banking activities have been approved by the Federal Reserve. The largest part of the mortgage banking activity, as well as small companies engaged in securities trading and providing investment management services, are organized as subsidiaries of the bank and do not require the Fed's approval, under current law.

The most geographically dispersed nonbank subsidiary of Philadelphia National Corp. is Signal Finance Corp., a Pittsburgh-based consumer finance company with 75 offices in 11 states. The company, formerly known as Signet Corp., has offices in California, Delaware, Maryland, Massachusetts, New Hampshire, New York, North Carolina, Ohio, Pennsylvania, Vermont and Virginia. The Fed approved the acquisition of Signal Finance in June, 1973.

Besides consumer installment loans and purchasing of sales finance contracts, the activities of Signal have been broadened since its acquisition to include more fund-raising at the retail level, selling automobile leases, and second-mortgage lending.

When Signal was acquired, its subsidiaries included a California thrift and loan association. This subsidiary has been expended since then by opening offices in Visalia in February, 1974, and in Stockton, in November, 1974. An official of Signal noted that the California offices sell thrift certificates.

In approving the new offices, the Fed described their activities as "making installment loans, purchasing and selling conditional sales contracts, trust receipts, chattel mortgages, and secured or unsecured choses in action, and generally engaging in the business of an industrial loan company; selling credit life, credit accident and health insurance, fire and casualty insurance in connection with Signal's industrial loan business, and reinsuring such insurance except for the fire and casualty business."

Besides sales of thrift certificates through its California offices, Signal has been gathering funds at the retail level since the start of 1975 through sales of one- and five-year notes with $500 minimum purchases. The company has registered $20 million of the notes with the Securities and Exchange Commission and is selling them from its offices in Pennsylvania, New York, Massachusetts, New Hampshire and Vermont.

In October, 1974, the Fed gave permission for 10 Signal Finance offices in Pennsylvania to engage in "advertising offering and preparing motor vehicle leases and generally acting as agent for a lessor in the leasing of motor vehicles." In June, 1975, permission was given to expand the activity to 16 other Signal offices in Pennsylvania. Officials of the holding company noted that the actual lessor is National Fleet Leasing Corp., Pittsburgh, which is identified in advertising for the service.

Besides relocation of some offices, Signal obtained Fed approval for a new office in Washington, Pa., in March, 1975.

Another activity started since the consumer finance company was acquired by the holding company was second mortgage lending in the Ohio offices. The Fed approved the new activity in January, 1974.

Also, the holding company received approval to sell credit life insurance related to the second-mortgage lending activity of the Ohio offices. It was also authorized to reinsure the credit-related insurance policies through subsidiaries of Signal.

The selling of insurance and reinsurance of the policies was also extended to the Virginia offices of Signal, with the Fed's approval, in June, 1974.

Besides acting as an agent for sales of credit-related life and disability insurance, Signal has two subsidiaries that reinsure policies sold to customers of the consumer finance company.

These companies are called Patrick Henry Insurance Co. and Patrick Henry Life Insurance Co. In some states Signal acts as an insurance agent through the Grabuck Agency, Inc., a subsidiary.

The mortgage banking activities are conducted through both subsidiaries of the holding company and the bank, though the most significant are the Colonial Mortgage Service Co. and the Colonial Mortgage Service Co. of California subsidiaries of the bank. Both have headquarters in Philadelphia and they have a total of 15 offices in eight states.

The two Colonial Mortgage Service companies have reduced the number of their offices in 1975 because of conditions in the real estate market, especially income-producing commercial properties. In 1975 they have either closed or are in the process of closing an office in the Los Angeles area and offices in Miami, Tucson and Phoenix.

Customers of the Colonial Service companies are offered mortgage redemption insurance through an independent company called Colonial Western Agency, Inc. This insurance agency was affiliated with the mortgage banking companies before their purchase by Philadelphia National but was not included in the purchase.

Colonial Advisers, Inc., Philadelphia, is a subsidiary of Colonial Mortgage Service Co. Its only function is to provide investment advice to PNB Mortgage and Realty Investors, a publicly owned real estate investment trust.

As subsidiaries of Philadelphia National Bank, Colonial Mortgage Service companies do not require Federal Reserve Board approval, under current laws. They were acquired in July 1968, before the holding company existed.

Officials of the holding company say, however, that shifting the mortgage banking companies to the holding company will certainly be considered at a later date, though the move is not likely in 1976. A spokesman explained that current conditions in the real estate markets and the economy as a whole have encouraged them to keep the mortgage banking companies under the bank, where they are operated virtually as a division of the bank. He noted that transfers of funds between the bank and the Colonial Mortgage Service companies are easier under that organization than if the mortgage companies were subsidiaries of the holding company. He also noted it is not so easy for holding companies to purchase money as it once was.

In June 1973, Philadelphia National Corp. applied to the Fed for permission to retain the Colonial Mortgage Service companies as subsidiaries of the holding company. Later, after examining the subsidiaries in light of changed conditions of the real estate markets and the economy, the holding company asked the Fed to hold the application in abeyance. The Fed replied that the application would be acted on unless withdrawn, so in May 1975, it was withdrawn.

Colonial Associates, Inc., Sherman Oaks, Calif. is a subsidiary of the holding company that resulted from the holding company's acquisition in August 1970, of four small California mortgage banking firms which were then merged into Colonial Associates. The mortgages originated by these independent companies were already being sold to the Colonial Mortgage Service companies. Colonial Associates, acquired before the effective date of the 1970 amendments to the Bank Holding Company Act, was included in the June 1973, application to retain shares already owned, and was withdrawn in May 1975.

In April and May, 1974, Colonial Associates received Fed approval to open new offices in Fresno, Sacramento, and Livermore, Calif., to originate, purchase, sell and service real estate mortgage loans. A Colonial Mortgage Service official said that those offices have been closed and that Colonial Associates operates through the other California offices, except San Francisco.

Colonial Pacific Mortgage Co. is a subsidiary of the holding company approved by the Fed in February, 1974, to operate from offices in San Diego and San Francisco. Although the approval described its activities as general mortgage banking, holding company officials said that it specialized in making construction loans in California.

In August 1972, the holding company attempted to purchase Hartzler Mortgage Co., an Ohio mortgage banking company specializing in residential mortgages from offices in Columbus and Mansfield. The Federal Reserve Board denied the application in November, 1973, holding that the acquisition would eliminate po-

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tential competition in the two Ohio markets. The Board noted that Colonial primarily originated construction and commercial loans in the Columbus market, but had capability to expand into the market for residential loans.

Congress Factors Corp., based in New York, is a subsidiary of the holding company and has another domestic office in Miami. The company was acquired by the bank in 1967 and in September, 1973, the Fed authorized the holding company to retain it.

Besides its factoring activity, Congress Factors has a subsidiary called Congress Financial Corp., which engages in other forms of commercial finance.

PNB Commercial Finance Corp., Philadelphia, is a subsidiary of the holding company engaged in making secured loans to businesses. The de novo company was approved by the Fed in June 1972. Holding company officials said that the company's primary activity was commercial lending, and noted it sometimes participates in loans made by the bank. The Fed's approval for the company also listed leasing of personal property and the storing and processing on computer of financial data as permissible activities.

Currently the bank is the only company in Philadelphia National Corp. that is engaged in leasing.

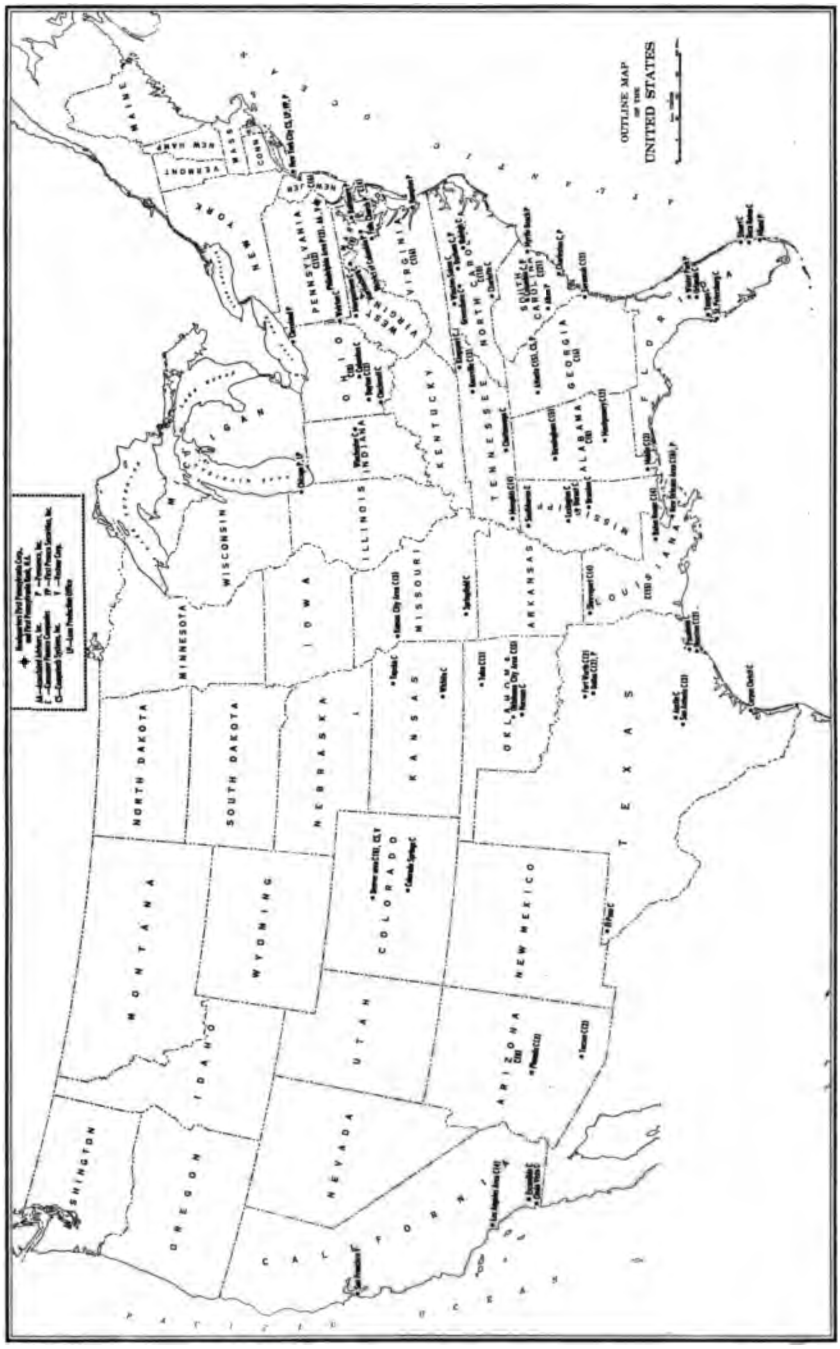
The holding company applied to the Fed for permission to engage in leasing in Philadelphia and New Rochelle, N.Y., in November, 1973, but that application was withdrawn in March 1975. A holding company official explained that the proposed domestic leasing activity involved a subsidiary of Concord International, S.A., a company in which the bank has a minority interest through an investment of an Edge Act corporation. The application for Concord Leasing, Inc. in New Rochelle as well as for Philadelphia National Leasing Corp. in Philadelphia were withdrawn because the Concord company did not have enough investors, the official continued.

Charter Atlantic Corp., is a subsidiary of the bank which in turn owns Fischer, Francis, Trees & Watts, Inc., and Charter Atlantic Securities Co., Inc., both in New York. After the bank acquired Fischer, Francis, Trees & Watts in 1972, the two Charter Atlantic companies were established.

Fischer, Francis, Trees & Watts provides investment management services to tax-exempt institutions such as pension funds. Charter Atlantic Securities invests for its own account in high-quality bank-eligible securities. Its investments are primarily in Treasurys, agencies and large negotiable certificates of deposit. Charter Atlantic Security's activities are in addition to Philadelphia National Bank's own trading account and portfolio.

Philadelphia National Bank has two Edge Act corporations, in Philadelphia and New York. The Philadelphia unit, called Philadelphia International Investment Corp., is primarily a vehicle for investments in foreign companies and was created in 1960. Philadelphia International Bank, New York, engages in foreign-related banking activities and was formed in 1966.

Philadelphia National Bank is a member of National BankAmericard, Inc., licenser of BankAmericard. These accounts are serviced through a division of the bank.


OUTLINE MAP OF THE UNITED STATES
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First Penn Non-Bank Subsidiaries Have 263 Offices in 25 States

(By Michael Quint)

New York.—The $7 billion-asset First Pennsylvania Corp., holding company of the $4.2 billion-deposit First Pennsylvania Bank NA, has domestic non-bank subsidiaries with 263 offices in 25 states and the District of Columbia plus its headquarters offices in Philadelphia.

In addition, First Pennsylvania Bank, which is the largest in the Philadelphia area and the 19th largest in the nation, has 80 banking offices and one Edge Act corporation. Pennsylvania law permits the anchor bank to branch only in the six counties which are contiguous to the bank's headquarters. Outside Pennsylvania the bank maintains representative offices in New York and Chicago.

The consumer finance and mortgage banking companies are the most geographically dispersed parts of the holding company. Other non-bank subsidiaries are in the businesses of selling and reinsuring credit related insurance, providing real estate advice, investment management, various accounting services, and securities trading and underwriting and leasing.

John R. Bunting, chairman of First Pennsylvania Corp., has been a leading advocate of expanding bank holding companies into fields besides commercial banking. Past acquisitions of bank holding companies amount to an embryoncl nationwide branch banking system, he told the annual convention of the Financial Analysts Federation in mid-1974. He predicted the Federal Reserve Board would take a liberal attitude towards such a change because the existing structure has resulted in "sick financial institutions," especially mortgage banking and savings institutions.

As legal distinctions between financial institutions are reduced, with thrifts becoming commercial banks, then merging with other banks, there will be a big development in bank diversification, he said.

During 1970, before the amendments to the Bank Holding Company Act became effective, First Pennsylvania Corp. purchased its two largest consumer finance subsidiaries and a mortgage banking firm, as well as creating a real estate advisory firm and an investment management company.

Because these companies were added before the 1970 amendments to the Bank Holding Company Act became effective they were not approved by the Federal Reserve Board. However, First Pennsylvania Corp. must obtain the Fed's permission to retain these companies before the end of 1980, or else divest itself of them. The holding company has not yet submitted any applications to retain these companies. The activities of these subsidiaries are all of the kinds that the Fed has found to be banking related in other instances.

Because some of the holding company's consumer finance subsidiaries still need Fed approval, while others more recently acquired were approved by the Fed, First Pennsylvania Corp. has three separate consumer finance companies.

Investors Loan Corp., Philadelphia, acquired in June, 1970 and Industrial Finance & Thrift Corp., New Orleans, acquired in December, 1970 both still need the Fed's approval by the end of 1980. Continental Finance Corp. of America, Aurora, Col., was acquired in August, 1973 after obtaining Fed approval in July of the same year.

Investors Loan Corp. has 72 offices in Delaware, Indiana, Maryland, New Jersey, North Carolina, Ohio, Pennsylvania, Virginia, and West Virginia. Currently its headquarters are in Philadelphia, although it was based in Frederick, Md. at the time of the acquisition.

Industrial Finance & Thrift Corp. has 153 offices in Alabama, Arizona, California, Colorado, Florida, Georgia, Kansas, Louisiana, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, and Texas. Its offices are called by the "Termplan" name.

Continental Finance Corp. of America has 11 offices in California and Colorado. It's activities differ from ILC and IF&T in that it includes seven industrial banks in the Denver area. According to holding company officials, these industrial banks are the only consumer finance subsidiaries within the holding company that are selling any kind of savings instrument.

Officials of the holding company noted that the three consumer finance companies use their own name for local identification and that there is a program under way to identify them as subsidiaries of First Pennsylvania Corp. on their exterior signs.

The holding company has contracted with Control Data Corp., Minneapolis to provide on-line computer links between the consumer finance offices and to the holding company's headquarters in Philadelphia. The system includes the accounting function of each offices. The offices of Continental Finance Corp. are already on this system, and offices of Investors Loan Corp. are in the process of being converted to it. Officials said that conversion of the Industrial Finance & Thrift will start soon and is planned for completion by the end of 1976.

All three of the consumer finance companies receive financial and administrative support from First Pennsylvania Financial Services, Inc. a direct subsidiary of the holding company. This company also owns the stock of Investors Loan Corp. and Industrial Finance & Thrift, meaning that technically they are indirect subsidiaries of the holding company.

The lending activities of the consumer finance companies are naturally, subject to a wide variety of state regulations, but holding company officials noted that second mortgage lending was minimal and that the basic activity of the companies was traditional straight consumer installment lending. They noted that small business lending has become a more important activity at the Colorado industrial banks.

Expansion of the consumer finance subsidiaries has been almost entirely by acquisition of existing firms rather than opening de novo offices. A spokesman for the holding company explained that although the consumer finance companies not yet approved by the Fed would not need permission to relocate existing offices, they would need permission to acquire the stock or substantially all the assets of existing company or to acquire stock of a new company it was establishing.

In 1971 Federal Reserve reports show that the holding company acquired through its subsidiaries consumer assets and offices of existing companies in Lexington, Miss.; Totowa, N.J., Colorado Springs; and Dover, Del.

In 1972, new offices were established with Fed approval in Newark. Laurel, and Smyrna, all in Delaware. In Louisiana, the holding company acquired the assets of small consumer finance companies in Houma and Ruston, La.

In November, 1972, the Fed approved the acquisition of American Loan & Finance Co., Hamilton, Ohio. This consumer finance company, which had 14 offices in Ohio, Indiana, and Virginia, was in Chapter 10 reorganization at the time. Currently the offices of American Loan & Finance are operated under the Investors Loan Corp. name, but separate books are maintained because most of the Investors Loan Corp. offices have not been approved by the Fed.

In 1973 three small consumer finance companies in Aliquippa, Beaver Falls, and Ellwood, Pa., were acquired with Fed approval. These are now operated under the Investors Loan Corp. name.

In July, 1973, the Fed approved the holding company's application to acquire Continental Finance Corp. of America. At that time the company, which is a direct subsidiary of the holding company operating under its own name, had 10 offices in the Los Angeles and Denver areas.

In 1974 and 1975 the acquisitions of consumer finance companies slowed as the holding company added only the assets of an Opelousas, La. consumer finance company in 1974 and so far in 1975 has only established de novo another industrial bank under Continental Finance Corp. in Littleton, Col.

Besides these acquisitions and de novo offices which were approved by the Fed, the holding company has submitted applications in recent years to acquire several other companies, but then later withdrew them.

Before the 1970 amendments to the Bank Holding Company Act, First Pennsylvania Corp. had an agreement to acquire Fidelity Acceptance Corp., a Minneapolis based consumer finance company with 117 offices in the western part of the country. In March, 1971, the holding company said that plan was ended because of the need, after the amendments, to obtain Federal Reserve approval and "the unavoidable delay incident to obtaining such approval."

In August, 1974, the holding company also withdrew applications it had submitted for the acquisition of City Finance Plan, Downey, Calif. and Globe Finance Co., Los Angeles.

In January, 1973, the holding company withdrew an application it had submitted to acquire the assets of Community Finance of Montgomery, Inc., in Alabama.

The consumer finance companies either make credit related insurance available to their customers or act as agents in the sale of such insurance, depending on state laws.

Investors Loan Corp. has a subsidiary called Eastern Life Insurance Co., which reinsures credit related insurance sold through the company's offices. Tempco Life Insurance Co. is the counterpart subsidiary of industrial Finance & Thrift. Also, Industrial Finance & Thrift owns Tempco Insurance Agency, Inc.

Pennamco, Inc., Bala Cynwyd, Pa., is a direct mortgage banking subsidiary of the holding company with 20 offices in 13 states and the District of Columbia, It was formerly known as Associated Mortgage Companies, Inc., and was acquired in November, 1969. First Pennsylvania must obtain Fed approval to retain the mortgage banking firm, which is the third largest in the nation, by the end of 1980 or else divest it.

In the last two years, Pennamco greatly reduced its activity in the field of originating single-family FHA guaranteed mortgages and has concentrated more on construction lending and mortgages on commercial properties. The deemphasis on FHA single-family homes has eliminated the need for most of the network of offices maintained by the mortgage banking firm. The 20 offices currently is down from 26 in 1974 and as many as 62 before that.

Associated Advisers, Inc. is a real estate advisory firm based in Cherry Hill, N. J., whose only activity is providing investment advice to First Pennsylvania Mortgage Trust, a publicly owned real estate investment trust. It is a direct subsidiary of the holding company created in March, 1970. It has not yet been approved by the Fed and must obtain such approval by the end of 1980.

Vestaur Corp., is a direct subsidiary of the holding company which provides investment management services for institutions and individuals. It also manages Vestaur Securities, Inc., a closedend bond fund. Created in June, 1970, Vestaur was an out-growth of the trust department of First Pennsylvania Bank and has access to the bank's custodial and operational services.

Although Vestaur is another subsidiary of the holding company that still needs Fed approval by the end of 1980, the Fed did approve in May, 1973 the acquisition fo Performance Associates, Inc.—Colorado Denver. Performance is now called Vestaur Corp.—Colorado and engage in similar activities to Vestaur Corp.

Fund/Plan Services, Inc., is a subsidiary of the holding company that provides shareholder accounting, dividend reinvestment and other services to mutual fund management companies and plan sponsors. The company was created when the holding company decided to spin-off the bank's mutual fund division into a separate subsidiary. The new company was approved by the Fed in September, 1972.

Computech Systems, Inc. is a direct subsidiary of First Pennsylvania Bank that provides administrative and record keeping services, primary to pension plans, from offices in Atlanta, Denver, keeping services, primarily to pension and New York. The Atlanta based company was acfiuired by the bank in March, 1975 and was approved by the Comptroller of the Currency.

Fund/Plan manages Computech, though the two companies are separately organized. There is a slight overlap of services between the two companies since Computech does a small amount of shareholder accounting, which is Fund/Plan's major activity.

First Pennco Securities, Inc., New York, is a direct subsidiary of the bank that trades and underwrites U.S. government and tax-exempt securities. The company was created in August, 1971 and is one of the few securities firms that is an independent company but still affiliated with a bank. In most banks holding companies securities trading and underwriting is conducted through a division of the bank. The distinction becomes important when and if different rules are applied to bank and non-bank dealers.

First Pennsylvania Bank, NA also has opened representative offices in Chicago and New York in the last year. These offices are part of the bank itself and are identified locally with the bank's name. They do not accept deposits or make loans.

First Pennsylvania Leasing, Inc., is a subsidiary of the holding comapny located in Philadelphia. The company was approved by the Fed in November, 1971 and began operation from Wilmington, Del. a month later. In May, 1972 it was relocated in Philadelphia. According to officials of the holding company, this leasing subsidiary still exists but the level of its activities has declined as leasing activities of the bank fell-off. It was authorized by the Fed to lease personal property and

officials explained it was responsible for generating and managing the banks leasing portfolio. They added that mostly it handled large leveraged leases with a small volume of vendor leasing programs.

The largest leasing company is First Northamerica Investments Ltd., which is a direct subsidiary of the holding company but operates only in Canada.

First Pennsylvania Overseas Finance Corp., Philadelphia, is an Edge Act corporation organized in March, 1962 and is a vehicle for making investments in foreign companies.

The factoring activity within the holding company is conducted through a division of the bank that was formed in January, 1968.

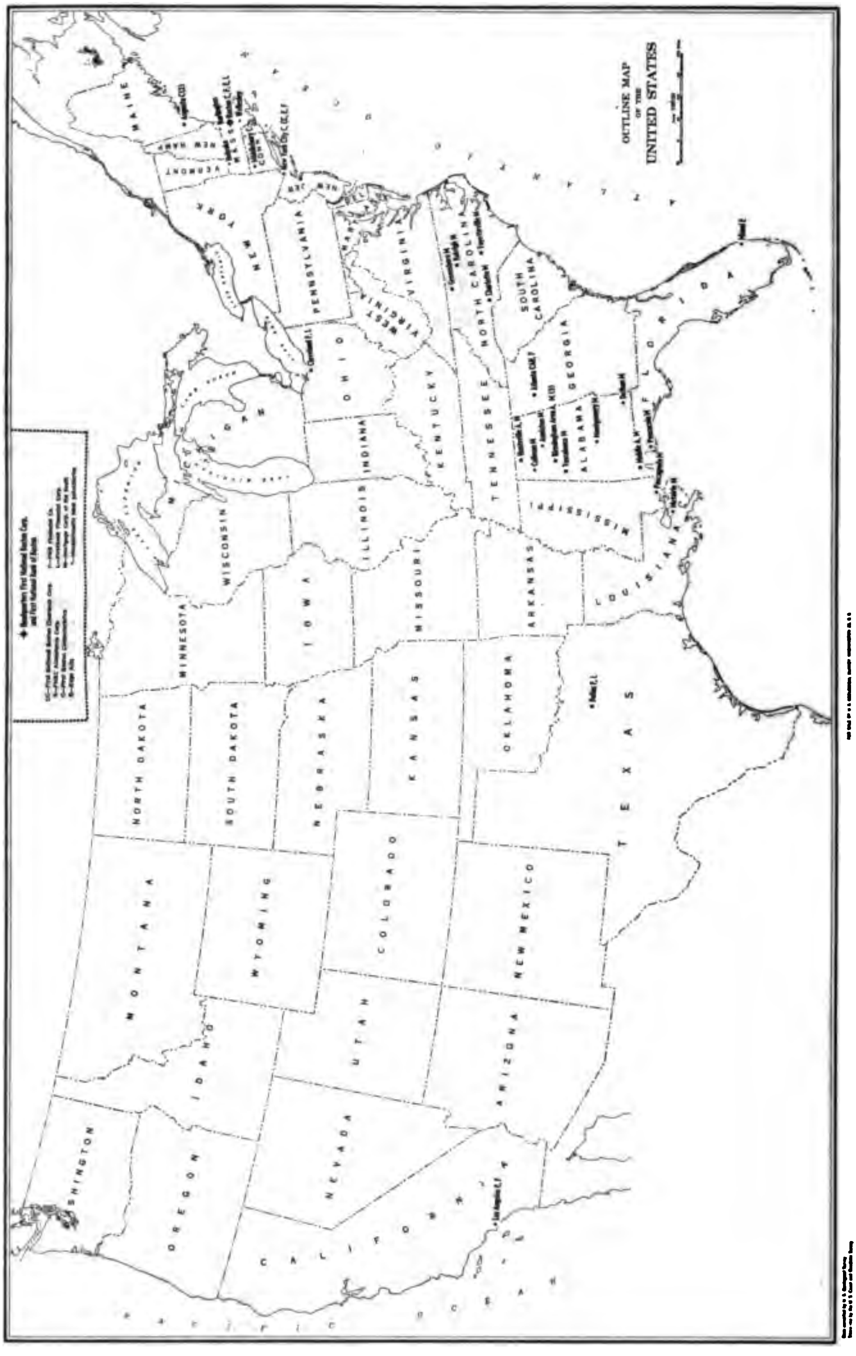
First Pennsylvania Bank NA was known as First Pennsylvania Banking & Trust Co. before it converted to a national charter in June, 1974. Mr. Bunting explained that addition branches are easier to obtain from the Comptroller of the Currency than from state regulators because the state consumer loan departments at times reject bank branch applications out of consideration for non-bank institutions.

At the time Mr. Bunting said he expected a change in Pennsylvania law to permit statewide branching. First Pennsylvania's two biggest rivals, the $6.9 billion-deposit Mellon Bank NA, Pittsburgh, and $2.9 billion-deposit Philadelphia National Bank, would have an advantage in obtaining new branches, he argued.

First Pennsylvania Bank began offering its customers credit cards later than most major banks. It is a card-issuing member of the Interbank Card Association, licenser of Master Charge, and began making the cards available in October, Master Charge accounts are serviced through a division of the bank.

Another new service recently offered by the bank is group hospital insurance for its retail customers. The bank does not offer the insurance directly, but uses a plan administrator, Group Plans, Inc., Washington. The program was started in August, with a direct mail campaign. The underwriter for the policies is the Mutual Benefit Life Insurance Co., Newark.

Another activity in which the holding company attempted to engage was community development through a new subsidiary to be known as Associated Community Development Corp. The company was meant to participate in a urban renewal project in Newport News, Va., and submitted an application to the Fed in August, 1972. When the company's bid to participate was rejected, the application was withdrawn. The proposal is now dormant.


OUTLINE MAP OF THE UNITED STATES
MAINE
VERMONT
NEW YORK
PENNSYLVANIA
WEST VIRGINIA
VIRGINIA
NORTH CAROLINA
SOUTH CAROLINA
GEORGIA
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NONBANK SUBSIDIARIES OF FN BOSTON CORP. OFFER VARIED SERVICES IN 33 OFFICES IN 11 STATES

(By Michael Quint)

NEW YORK.—The $8.1 billion-asset First National Boston Corp., holding company, for the $5.9 billion-deposit First National Bank, Boston, has domestic non-bank subsidiaries with 33 offices in 11 states, not counting its headquarters in Boston.

In addition FNB Boston, the largest bank in New England, has 40 banking offices in Suffolk County. The holding company also controls three other Massachusetts banks with a total of 9 offices. These are also Edge Act corporations with offices in Boston, New York, Miami, and Los Angeles.

The non-bank activities within the holding company include consumer finance, mortgage banking, selling insurance, factoring, leasing, data processing services, securities clearance, and providing venture capital to small businesses.

According to officials of the holding company, all of its subsidiaries have either been approved by the Federal Reserve, or else current rules do not require the Fed's approval. Both the mortgage banking and the leasing subsidiaries are directly owned by the bank, and thus have not required or received Federal Reserve approval.

Mortgage Corp. of the South, is a mortgage banking subsidiary of the bank with headquarters in Birmingham, Ala. and a total of 18 offices in Alabama, Louisiana, Mississippi, Florida, Georgia, and North Carolina. The company was acquired in 1972 and was known as Cobbs, Allen & Hall Mortgage Co. until mid-1975 when the name was changed.

The mortgage banking firm originates and services residential mortgages as well as construction loans and mortgages on commercial properties. It does make credit-related insurance available to customers through a group policy it has with an insurance company, but does not officially act as an agent.

During 1975 Mortgage Corp. of the South expanded geographically, opening four new offices in North Carolina and one in Tuscaloosa, Ala.

First of Boston Mortgage Corp. is a mortgage banking subsidiary of the holding company whose creation was approved by the Fed in August 1973. It operates only from a Boston office.

In approving the new company the Fed described its activities as "making, acquiring and servicing, for its own account or for the account of others, loans and other extensions of credit including those secured by mortgages of residential or commercial properties or leasehold interests therein." The Fed approval also said the company may furnish economic or financial information on real estate matters, providing portfolio advice on real estate investments and provide other services incidental to mortgage banking.

FNBC Acceptance Corp. is a consumer finance subsidiary of the holding company with three offices in Alabama. It was organized in 1973 and Federal Reserve approved the new company in November of that year. The Birmingham office was approved in November 1973, while the Huntsville and Mobile offices were approved in March 1975.

FNBC Acceptance was known as CAH Acceptance until October 1975.

In approving these new consumer finance offices the Fed described their activities as "making, acquiring and servicing, for its own account, loans and other extensions of credit, including loans to individuals for property improvement, debt consolidation and other purposes, in Alabama and elsewhere in the southeastern United States; and providing all such other services and engaging in all such other activities as are incidental to the foregoing."

In May 1975, the Fed approved the additional activity of offering credit life and credit-health insurance to borrowers at the FNBC Acceptance offices in Huntsville and Mobile.

In the structure of the holding company, FNBC Acceptance is a subsidiary of FSC Corp., which in turn is a subsidiary of the holding company. FSC Corp. is also the holding company for FNB Financial Co., the factoring subsidiary.

FNB Financial Co., the factoring subsidiary of the holding company, has six offices in Boston, Atlanta, Cleveland, Dallas, Los Angeles, and New York. The company was created in 1971 when First National Factors of Boston, a subsidiary of the bank engaged in the factoring business, was reorganized as a subsidiary of

the holding company. The Fed approved the factoring activity for the holding company in Boston in September 1971.

FNB Financial has received Fed approval for new regional offices as follows: Los Angeles, July 1972; Cleveland, September, 1972; Atlanta, October, 1972; New York, March, 1973; and Dallas, December, 1973. The company is organized and operates in its regional offices as a Massachusetts business trust.

Holding company officials said that the regional FNB Financial offices identify it as a subsidiary of First National Boston Corp. or as an affiliate of First National Bank of Boston. They also noted it is the largest bank affiliated factoring company in the nation.

The approved activities at the regional offices were described by the Fed as "factoring, commercial financing and leasing of personal property." Holding company officials explained that the local offices actually arrange and complete loan agreements, though leases are not booked through FNB Financial.

Besides its entry into the consumer finance and factoring businesses on a de novo basis, First National Boston Corp. has made efforts to enter both fields through acquisitions of existing firms. Currently it has pending an application to acquire Invenchek, Inc. an Atlanta-based sales finance service company.

FNB Financial Co.'s activities include funding and servicing the inventory financing programs offered by manufacturers and distributors of durable goods to their wholesale and retail customers. This business has been conducted in association with Invenchek, which provides field audit inventory verification through a network of 4,000 contract auditors.

On Dec. 9 the holding company submitted an application to the Boston Fed to exercise an option it has to acquire Invencheck. The acquisition does require the Fed's approval. The application has not yet been formally received by the Fed's Board of Governors.

In May, 1974, the holding company called off discussions on the proposed acquisition of Liberty Loan Co., St. Louis, a consumer finance company with over 800 offices nationwide. Although the directors of the two companies had signed a letter of intent for the acquisition, an application had not yet been formally received by the Federal Reserve Board. A spokesman at Liberty Loan noted that all major matters of the transaction had been agreed on, but the holding company still had the right to withdraw.

Richard D. Hill, chairman of First National Bostor, said at the time that "in view of the tremendous need for liquidity and unusually high demand for loans everywhere, this may not be the best time for a major acquisition by any financial institution." He observed that the holding company was reluctant to assume the liabilities of Liberty Loan at a time when other banks were posting foreign exchange losses, real estate investment trusts were having trouble rolling over their commercial paper, and the general high interest rate environment.

Earlier 1972, First National Boston announced it was discussing the acquisition of GAC Finance Inc., Allentown, Pa. The consumer loan and finance subsidiary had over 400 offices in 41 states. The discussions were ended later that year when BankAmericard Corp. made a cash offer for the firm, which it ultimately acquired.

Before embarking on its program of de novo offices for its factoring subsidiary, First National Boston applied to the Fed in October, 1971, to acquire Crompton-Richmond Co., Inc., a factoring company based in New York. That acquisition was discouraged by the Justice Department which told the Federal Reserve that adverse effects on competition could result from the purchase. The Justice Department objected to Crompton-Richmond, one of the largest remaining independent old line factors, being acquired by a bank holding company which already had a factoring subsidiary.

First National Bank of Boston was one of the first bank entrants to the factoring business in 1945 when it started First National Factors of Boston. Crompton-Richmond was later acquired by the $28.5 billion-asset United Virginia Bankshares, Norfolk, anchored by the $738.5 million-deposit United Virginia Bank.

The primary leasing subsidiary within the holding company is Firstbank Financial Corp., a direct subsidiary of the bank created in 1964. Firstbank Financial leases personal property, primarily industrial equipment through its headquarters in Boston and sales personnel in Cleveland and Dallas.

Firstbank Financial includes the Randolph Computer Division, the result of the 1972 acquisition of the computer leasing assets of Randolph Computer Corp. Besides leasing, Randolph provides installation assistance and evaluation of equipment and systems.

Another leasing subsidiary, called FFC Boston Leasing Corp. is a subsidiary of Firstbank Financial that offers the same product. Company officials said that FFC Boston Leasing Corp. was necessary to operate in states that would not allow Firstbank to conduct business because of the "Bank" portion of its name.

FNB Services Inc. is direct subsidiary of the holding company that was created in 1971. In August of that year the Fed permitted the holding company to continue to engage in the leasing of personal property. According to holding company officials this subsidiary is oriented to making large leveraged leases.

First of Boston Computeristics, Inc. is a joint venture with Uniroyal, Inc. offering computer services from locations in New York, Middlebury, Conn. and Augusta, Maine, besides its Boston office. When the Federal Reserve approved the de novo activities for a Boston office of the holding company in August, 1973 they were described as "providing bookkeeping or data processing services for the internal operations of First National Boston Corp. and its subsidiaries, storing and processing banking, financial, or related economic data such as performing payroll, accounts receivable or payable, or billing services for others, and providing all such other services and engaging in all such other activities as are incidental to any of the foregoing."

In February, 1974 the Fed approved similar new activities at the Oxford Management and Research Center, Middlebury, Conn. In June, 1974 it approved the same activities for locations in Boston, Middlebury, and New York City; and in January, 1975 the same activities were approved for two locations in Augusta, Maine.

The holding company said in its annual report that activities of First of Boston Computeristics "include check transmission to regional banks, data processing services for New England correspondent banks, and through its New York City office, proprietary computer programs."

The holding company's 50% share of First of Boston Computeristics is through Firstbank Data Services, Inc., which has no other function, company officials said. Firstbank Data Services, in turn is a direct subsidiary of the holding company.

A spokesman for the holding company said that the New York office facilities of Computeristics are not currently active.

Besides the activities of Computeristics the anchor bank itself provides a wide variety of data processing services to correspondent banks and other financial institutions. The annual report listed activities including deposit and loan accounting, providing shareholder accounting services to mutual funds and custodial services for investment companies.

First National Bank of Boston is a member of the Interbank Card Association, licensor of Master Charge cards. A division of the bank services these accounts.

First National Boston Clearance Corp. is a securities clearance firm with offices in New York and Boston. In Los Angeles the FNB Financial Corp. acts as a securities drop for the holding company. It was organized as a subsidiary of the holding company in 1971. Its stock transfer business includes dividend reinvestment and cash stock purchase plans.

Besides the First National Bank of Boston, the holding company has three smaller commercial banks in Massachusetts which it acquired in the last quarter of 1973. They are the $8.4 million-deposit First Bank & Trust Co. of Wellesley with one office, the $14.1 million-deposit Burlington Bank & Trust Co. with one office and the $34.3 million-deposit Holyoke National Bank with seven offices. In May, 1975 the Holyoke bank acquired the Chicopee Bank & Trust Co. after the state banking department and the Federal Deposit Insurance Corp. solicited bids for the problem bank.

In July, 1975 the holding company announced plans for the acquisition of the $24.5 million-deposit Blackstone Valley National Bank, Whitinsville. That acquisition is still subject to approval by regulatory authorities.

The Whitinsville bank was one of three Massachusetts banks that the holding company applied to the Fed for permission to acquire in February, 1974. In February, 1975, the applications were withdrawn with the holding company citing at that time "unfavorable economic conditions and the long delay since the applications were filed."

There are four Edge Act corporations within the holding company, three are a subsidiary of the bank and one is a direct subsidiary of the holding company. The Bank of Boston International, Los Angeles, was approved by the Fed in March, 1973 and is a subsidiary of the holding company, according to a com-

pany spokesman. The Bank of Boston International of Miami, approved in October, 1971 and the older Boston Overseas Financial Corp., Boston and Bank of Boston International, New York are all subsidiaries of the anchor bank. The Boston Edge Act is a vehicle for foreign investments.

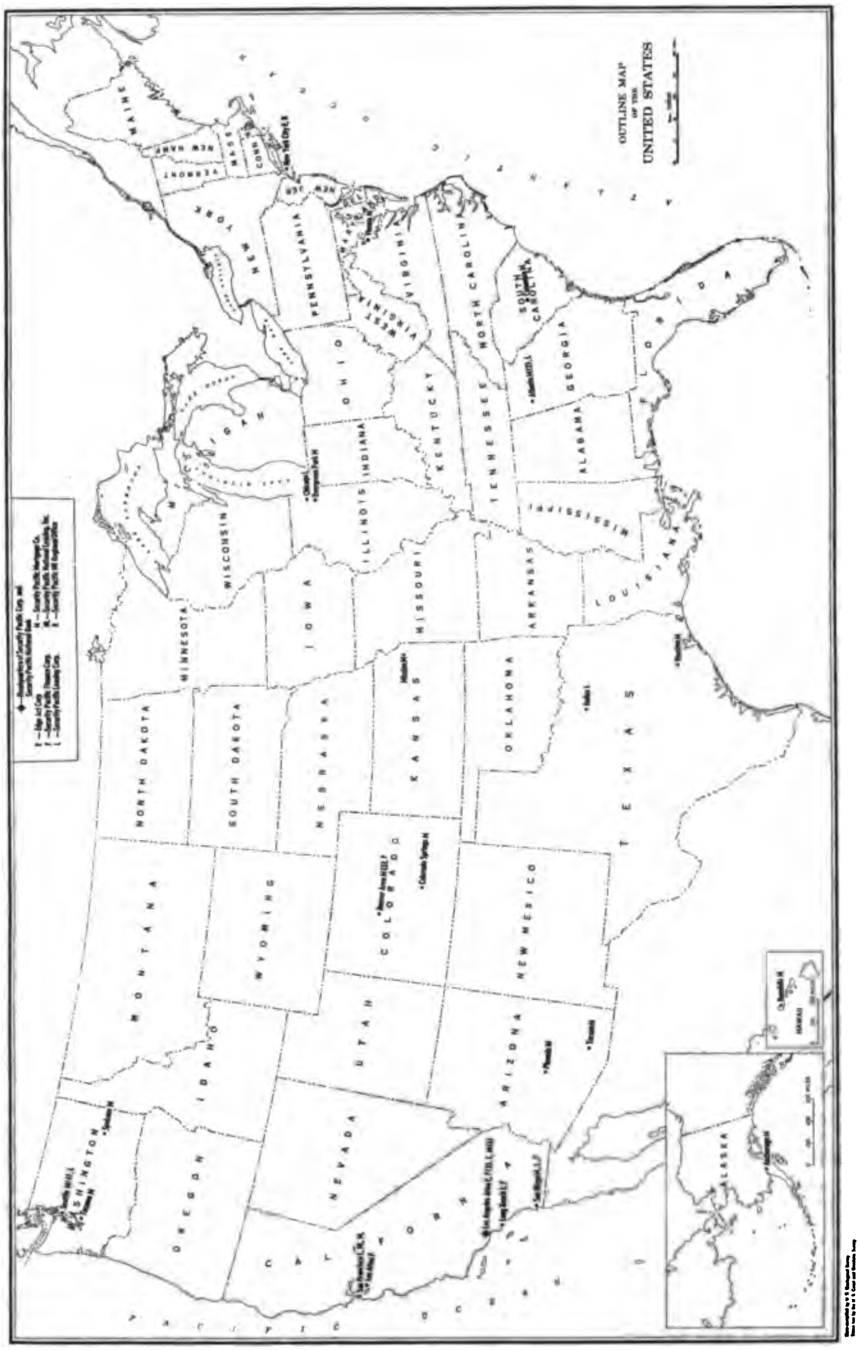
The holding company submitted another application to the Fed for an Edge Act company in New Orleans in July, 1974, but in November, 1975 the application was withdrawn. Like the Los Angeles bank, the proposed New Orelans Edge Act was to be organized as a direct subsidiary of the holding company.

The holding company includes two subsidiaries that provide financing and advice to small businesses. Both companies are located only in Boston.

First Capital Corp. of Boston is a registered small business investment company organized as a subsidiary of the bank in 1959.

First Century Capital Corp. of Boston is a direct subsidiary of the holding company approved by the Fed in August, 1972. The Fed described its activities as "financing and providing services in connection with the financing of minority business organizations." The 1973 annual report says the company was designed, to engage in types of financing that were not consistent with the SBIC regulations such as overseas investments and companies too large to be called small businesses.

The holding company controls another subsidiary, Massachusetts Tankers, Inc., which in turn has three tanker leasing companies.


OUTLINE MAP OF THE UNITED STATES
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[Reprinted from the American Banker, Dec. 4, 1975]

NONBANK OFFICES OF SECURITY PACIFIC CORP. HAVE 45 OFFICES IN 13 STATES

(By Michael Quint)

NEW YORK.—The $14.6 billion-asset Security Pacific Corp., Los Angeles, holding company for the $12 billion-deposit Security Pacific National Bank, has domestic non-bank subsidiaries with 45 offices in 13 states plus its office in Los Angeles.

In addition, Security Pacific National Bank, the 10th largest in the nation, has 498 branches in California and controls two Edge Act corporations in New York and Los Angeles.

Through its non-bank subsidiaries Security Pacific is engaged in the businesses of mortgage banking, consumer finance, leasing, selling credit related insurance, and providing venture capital to small businesses. The bank provides a full range of banking services.

The most geographically dispersed of the holding company's subsidiaries is Security Pacific Mortgage Corp. with headquarters in Denver and a total of 30 offices in 12 states. This mortgage banking firm was known as Kassler & Co. until September, 1975 when the name was changed. Kassler was a subsidiary of Midwestern Financial Corp. which the holding company acquired in May, 1974 with the Federal Reserve Board's approval.

Security Pacific Mortgage Corp. originates and services both residential and commercial mortgages through its offices. The residential and commercial divisions are distinct, company officials noted, but in some cities are located in the same building. In those cases they have been counted as two offices on the accompanying map.

Since Security Pacific acquired the mortgage banking company it has opened new offices in Atlanta; Vienna, Va.; Tacoma, Wash.; and Columbia, S.C., according to applications approved by the Federal Reserve.

Officials of the commercial bank and the mortgage banking firm noted that in California they compete in both the residential and commercial and construction lines. Unlike the bank, the mortgage company does not retain mortgage loans in an investment portfolio.

Security Pacific Finance Corp., with six offices in California and one in Westminster, Col. is a direct subsidiary of the holding company that was created in 1974 and approved by the Fed in September of that year. All of the consumer finance company's offices have been opened de novo since September, 1974.

The California offices are in Long Beach, Los Angeles, Los Altos, Encino, Orange and San Diego.

In permitting all of these offices but San Diego the Fed described their activities as "making or acquiring, for its own account or for the account of others, loans and other extensions of credit, including making consumer installment personal loans, purchasing consumer installment sales finance contracts, and making loans to small businesses; and acting as broker for the sale of consumer related life/accident and health insurance and consumer related property and casualty insurance."

For the most recently opened consumer finance office, in San Diego, the Fed's description of permitted activities was broadened to include "other extensions of credit such as would be made by a factoring company or a commercial finance company." According to officials of the holding company this activity was included for possible future use, but currently the San Diego office is not engaged in factoring.

Currently Security Pacific is negotiating to expand its consumer finance subsidiary through acquisition of The Bankers Investment Co., a Hutchinson, Kan. based consumer finance company. The proposed acquisition, which was announced in early November, 1975, is still subject to approval of the companies' boards of directors and the Federal Reserve.

Bankers Investment has 58 offices in Kansas, Colorado, Idaho, Missouri, New Mexico, Oklahoma, Texas, Utah, and Wyoming. It engages in direct consumer lending and the purchase of retail installment contracts. An official of the holding company observed that Bankers Investment also has a reinsurance subsidiary, but that if this activity were continued, it would have to be limited to reinsurance of permitted kinds of credit related insurance.

Besides the proposed acquisition of Bankers Investment, an official of Security Pacific said the holding company planned to continue with a modest program of

opening de novo consumer finance offices, perhaps five to 10 a year. He noted that recently the company decided not to open an office in Seattle which already had regulatory approval, because proper supervision might not be available during the negotiations with Bankers Investment.

The Security Pacific spokesman said that discussions with Bankers Investment were continuing and said that a formal application might be filed with the Federal Reserve at the end of the first quarter of 1976.

Security Pacific and BankAmerica officials also noted that Security Pacific had discussed purchasing some of the GAC West offices in 12 western states that BankAmerica was required to divest. A Security Pacific spokesman said those discussions were not detailed. BankAmerica ultimately sold the offices to ITT Financial, St. Louis.

In 1974 Security Pacific applied to the Fed for permission to acquire General Rediscount Corp., a subsidiary of GAC Finance which BankAmerica Corp. is required to divest. General Rediscount finances other smaller consumer finance companies. However, in October, 1974 Security Pacific withdrew its application, noting the Fed's posture of discouraging expansion of bank holding companies by acquisition.

Security Pacific Leasing Corp., with seven offices in four states, is a direct subsidiary of the holding company that received Fed approval to begin operations in Los Angeles in November, 1972. Later approvals were obtained for new offices in San Francisco, in December, 1972; San Diego, January, 1974; Long Beach, Calif., and Dallas, July, 1974; Seattle and Atlanta, January, 1975; and Des Plaines, Ill., August, 1975.

The Fed's approval for these offices described their activity as "leasing personal property and equipment, and acting as agent, broker, or adviser in leasing such property; and construction financing of any property to be leased." Terms of the lease must fully compensate the lessor for the cost of the property, in accord with Regulation Y.

The holding company recently applied to the Federal Reserve for a Minneapolis office of Security Pacific Leasing. In the application the proposed activities of the Minneapolis office were described as leasing personal and real property.

Security Pacific National Leasing, Inc., San Francisco, is a direct subsidiary of the bank formed in March, 1975 that holds the portfolio of equipment leases originated and managed by Security Pacific Leasing Corp.

SP Insurance Agency, Inc., Los Angeles, is a direct subsidiary of the holding company that was authorized by the Fed in May, 1974 to act as agent or broker for the holding company or its subsidiaries for various kinds of insurance.

The insurance agency was authorized to act as agent or broker for credit life insurance and credit disability insurance under California laws when the insurance is directly related to credit extended by the holding company or a subsidiary. It may act as agent or broker for insurance which insures against a loss in the interests of both the owner of a vehicle and a party with a secured interest in the vehicle. This insurance would be offered by licensed vehicle dealers to purchasers of vehicles who finance the unpaid purchase price by means of conditional sale contracts or similar agreements which are purchased or otherwise financed by the holding company and its subsidiaries.

The insurance agency may act as agent or broker with respect to mortgage redemption life insurance related to extensions of credit by Security Pacific the holding company and its subsidiaries and also group mortgage disability insurance directed related to extensions of credit.

The insurance agency was authorized to act as agent or broker for any insurance for the holding company or its subsidiaries. It was also permitted to act as agent or broker for vendors single interest insurance insuring only the interest of the holding company and its subsidiaries in motor vehicles and other collateral securing credit extended by the holding company and its subsidiaries.

A holding company official noted that SP Insurance Agency acts as an agent only in California, and that mortgage banking or consumer finance offices outside California do not also act as insurance agents. The insurance agency does act as an agent for credit related insurance sold to customers of the bank, he added.

Security Pacific Venture Capital Advisory Corp., Los Angeles, provides investment advice to Security Pacific Capital Corp. and to First Small Business Investment Co. of California, both of which are based in Los Angeles and provide venture capital to businesses. When the Fed approved the creation of the venture capital advisory corporation in June, 1973, it noted that besides acting as portfolio or in-

While the mortgage banking subsidiary of the holding company is engaged primarily in commercial mortgage banking, the bank's portfolio of real estate loans is composed mostly of residential mortgages.

First Chicago Leasing Corp. is the primary domestic leasing subsidiary of the holding company with one office in New York besides Chicago. The subsidiary was approved by the Federal Reserve in August, 1971 after an application to create the company was received by the Fed the preceding July and the company had commenced business in January, 1971. The company's primary activities were described by the Fed as leasing of personal property and equipment and acting as agent, broker or adviser in leasing of such property.

In November, 1974 the activity of leasing real property was approved for First Chicago Realty Services in Chicago, Atlanta, and Los Angeles and for First Chicago Leasing Corp. in Chicago.

First Lease, Inc., is a subsidiary of the bank engaged in the automobile leasing business in Chicago. As a subsidiary of the bank formed in June, 1973, engaged in an activity permitted to national banks, it did not require the Fed's approval. The company offers leases directly to consumers in Chicago and also through local auto dealers who are affiliated with the program.

First Chicago is involved in the student loan business as a lender through First Chicago University Finance Corp., Chicago, and as a servicer for student loans through AFSA Data Corp., Torrance, Calif. Both are direct subsidiaries of the holding company that have been approved by the Federal Reserve.

First Chicago University Finance was created in January, 1973. The company's primary activity is making direct loans to colleges, universities and other qualified lenders under government guaranteed student loan programs such as the Federal Insured Student Loan program. The schools in turn make loans to students.

AFSA Data Corp., acquired by First Chicago in August, 1973, is a servicer of student loans for educational institutions and other lenders under various loan programs. It is not a lender.

First Chicago Fiduciary and Investment Services Corp. is a direct subsidiary of the holding company approved by the Fed in November, 1972, to act as an investment adviser. It is based in Chicago.

First Chicago Asset Management Corp. is a subsidiary to First Chicago Fiduciary and Investors Services which acts as an investment adviser specializing in international portfolios.

First Capital Corp. of Chicago and First Chicago Investment Corp. are both engaged in providing venture capital through loans and equity investments in small businesses. First Capital Corp. of Chicago is a registered Small Business Investment Company organized in 1961 and First Chicago Investment Corp. is another lender created by the holding company in November, 1971 and approved by the Fed in March, 1972.

First Chicago Investment Corp. supplements the financing provided by the Capital Corp. and the bank through use of subordinated debentures, convertible preferred stock and other types of debt and equity financing.

Currently First Chicago Corp. does not have non-bank subsidiaries engaged in consumer finance or factoring and other forms of financing business assets. Domestically it is engaged in these activities only through First National Bank of Chicago.

However the holding company has made attempts indicating its desire to expand into these businesses.

In August, 1973 the holding company announced a preliminary agreement for the acquisition of American Finance Systems Inc., Silver Spring, Md. At the time, American Finance System was the second largest consumer finance company in the nation with 715 offices in 41 states. Its activities included making consumer loans, purchasing instalment contracts from dealers and rediscounting the loans of smaller finance companies, as well as selling insurance.

An application to purchase the company was received by the Federal Reserve in April, 1974, but in the following October the acquisition was called off because of an inability for the two companies to obtain necessary tax rulings and changes in the market prices of both companies. They also cited the long delay in realizing the acquisition plan and the doubtfulness of obtaining Federal Reserve Board approval in light of the changed economic and regulatory environment.

In August, 1974 the holding company submitted an application with the Fed to create a commercial lender called First Chicago Credit Corp. The proposed activities of the company were described as "making or acquiring, for its own account, secured and unsecured loans and other extensions of credit (including issuing guarantees and letters of credit and accepting drafts), such as [illegible]ld be

made by a commercial finance company, which activities include without limitation, purchasing of accounts or notes receivable on a recourse or nonrecourse basis; and making loans to commercial customers, secured by accounts receivable, inventory, equipment and interests in real estate and other property."

This application was withdrawn in October, 1974, the same month as the company dropped plans to acquire American Finance Systems.

The Edge Act subsidiaries in San Francisco, Los Angeles and New York are operating banking units in foreign-related finance and the one in Chicago as a vehicle for investments in foreign companies.

The most recently established Edge Act corporations are First Chicago International, Los Angeles and First Chicago International, San Francisco, which were incorporated in May, 1973 and March, 1974, respectively. The Fed approved both banks in April, 1973.

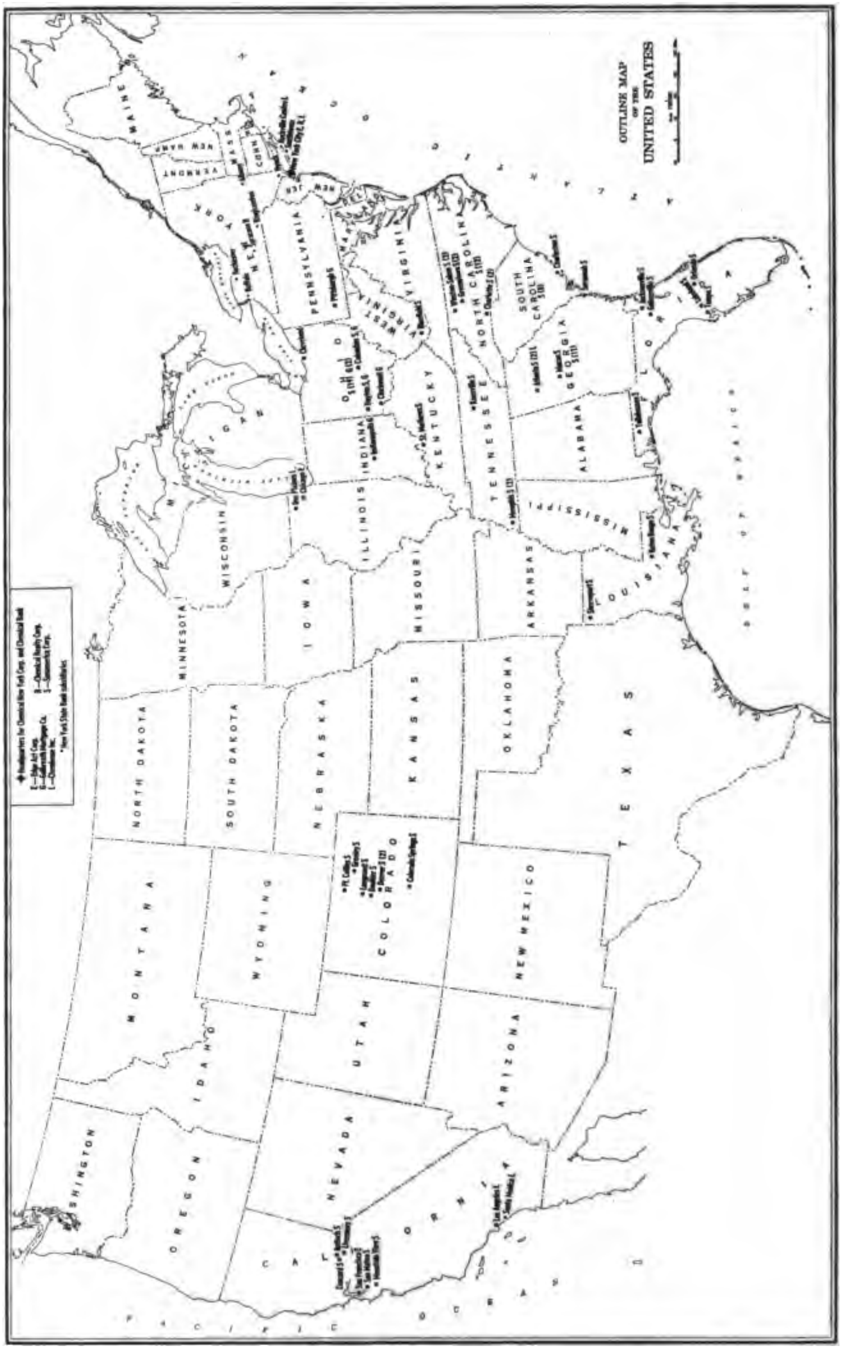
The two other Edge Act corporations are called First Chicago International Banking Corp., New York, and First Chicago International Finance Corp., Chicago.

The bank also maintains an office in New York City on Wall Street as a correspondent office for its bond department. The holding company's directory of offices also shows that the division of the bank engaged in lending to brokers and dealers maintains an office in New York City.

Data processing services, other than the servicing of student loans, are maintained either through the bank or a subsidiary of the bank.

The BankAmericard Division of the bank moved its data processing operations to Elgin, Ill. in 1973.

First Chicago Data Corp. is a subsidiary of the bank with offices in Chicago and Minneapolis. The subsidiary was created, according to an official of the holding company, in 1975 when the bank acquired the data processing division of Beverly Bancorporation, Chicago. That acquistion was approved by the Comptroller of the Currency, he noted.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[Reprinted from the American Banker, Nov. 13, 1975]

Chemical NY Corp. Operates 121 Nonbanking Offices in 15 States

(By Michael Quint)

New York.—The $24.1 billion-asset holding company for the $19.4 billion-deposit Chemical Bank here has 121 non-bank offices in 15 states plus its offices in New York City.

In addition, Chemical Bank, the fifth largest in the nation, has over 273 offices in the New York City area and three Edge Act banks. The holding company also controls six smaller banks in New York State with a total of 24 offices.

Chemical's subsidiaries are engaged, in consumer finance, selling credit related insurance, mortgage banking, providing real estate advice, leasing, factoring and other commercial finance, and a broad range of banking services. The leasing and factoring operations are conducted through direct subsidiaries of the bank, while the other non-banking activities are through direct subsidiaries of the holding company.

The most widely dispersed of Chemical's subsidiaries is Sunamerica Corp. a Cleveland, Ohio based consumer finance company with 107 offices in 11 states. The acquisition by the holding company was approved by the Federal Reserve Board in June, 1975. Chemical announced its intention to purchase Sunamerica in January 1974.

The primary subsidiary of Snuamerica is Sun Finance & Loan Co. which has 104 consumer outlets in Ohio, Florida, Colorado, California, Georgia, West Virginia, Kentucky, Tennessee, North Carolina, Louisiana, and South Carolina, as well as three administrative offices.

The consumer finance offices of Sun Fianance include four industrial banks in Colorado located in Colorado Springs, Longmont, and two in Denver. These industrial banks, also known as Morris Plan banks engage in consumer lending, like the other consumer finance outlets, but they obtain funds at the retail level through sales of thrift certificates to consumers.

When the Fed approved Chemical's acquisition of Sunamerica it noted that the holding company planned for the consumer finance company to continue to maintain separate and independent funding for its own lending operations. A spokesman for the consumer finance company observed that the holding company inserted into its application after it was originally submitted and noted that Manufacturers Hanover received approval to buy Ritter Financial Corp. in December, 1974 with a similar limitation. He noted that although this eliminates one of the long range advantages of affiliation with a bank holding company, lenders still recognize the affiliation, even if the holding company is not the direct borrower.

Sunamerica also controls Sun States Life Insurance Co., Phoenix, and Great Lakes Insurance Co., Cleveland, both reinsurance companies. Sun States Life reinsures credit related life insurance sold by the consumer lending offices acting as agents and Great Lakes reinsures credit related accident and health insurance sold through those offices.

The holding company is engaged in mortgage banking activities through Galbreath Mortgage Co., Columbus, Ohio and Chemical Realty Corp., New York City.

Chemical Realty Corp. with offices in New York City and Syracuse, N.Y., was approved by the Fed in September, 1972 as a subsidiary of the holding company. The Syracuse office was approved by the Fed in January, 1974. The Fed's approval of the subsidiary described its activities as real estate financing, principally short term land, development and construction mortgage loans. The new subsidiary would also act as advisor and counselor to Chemical Bank and would act as servicing agent with regard to the bank's customer real estate lending activities.

The Galbreath Mortgage Co., a Columbus, Ohio based mortgage banking firm has six offices in Ohio plus one office each in Indianapolis and Pittsburgh. The Fed approved the acquisition of the company in May, 1974 after receiving an application the previous March. At the time of the approval Galbreath also had offices in Des Plaines, Ill. and Grand Rapids, Mich., but those offices have since been closed.

In its approval the Fed noted that besides a general mortgage banking business Galbreath also acts as agent for sales of credit related insurance.

Chemlease, Inc. and Chemlease Worldwide are both domestic leasing subsidiaries within the holding company. Chemlease, Inc. is a direct subsidiary of the holding company while Chemlease Worldwide, Inc. is a direct subsidiary of Chem-

ical bank. Both, however, have offices outside the New York City headquarters. The holding company unit operates in Dallas, Atlanta, and Des Plaines, Ill. and the bank's subsidiary operates in Rockville Centre, Long Island and Santa Monica, Calif.

Chemlease, Inc. was approved by the Federal Reserve in August, 1975. The Fed described the activities it permitted then as "leasing real and personal property and equipment on a non-operating, full-payout basis, and acting as agent, broker, and adviser with respect to such leases; finacing real and personal property and equipment such as would be done by a commercial finance company; and servicing such extensions of credit."

Chemlease Worldwide, Inc., as a subsidiary of the bank, has not been approved by the Federal Reserve.

In March, 1968 L. F. Dommerich & Co., Inc. a factoring concern was acquired by the bank. Currently this company is operated as a division of the bank with offices in New York City and Los Angeles. The Los Angeles can be called a loan production office, officials of the holding company noted, adding that its basic function is to assemble credit information.

Although Chemical has not sought Fed approval to retain Dommerich, it did obtain approval for a new activity for the factoring company in December, 1973. At that time the Fed permitted Dommerich Factors to make collateralized and uncollateralized loans including those allowing for equity participation.

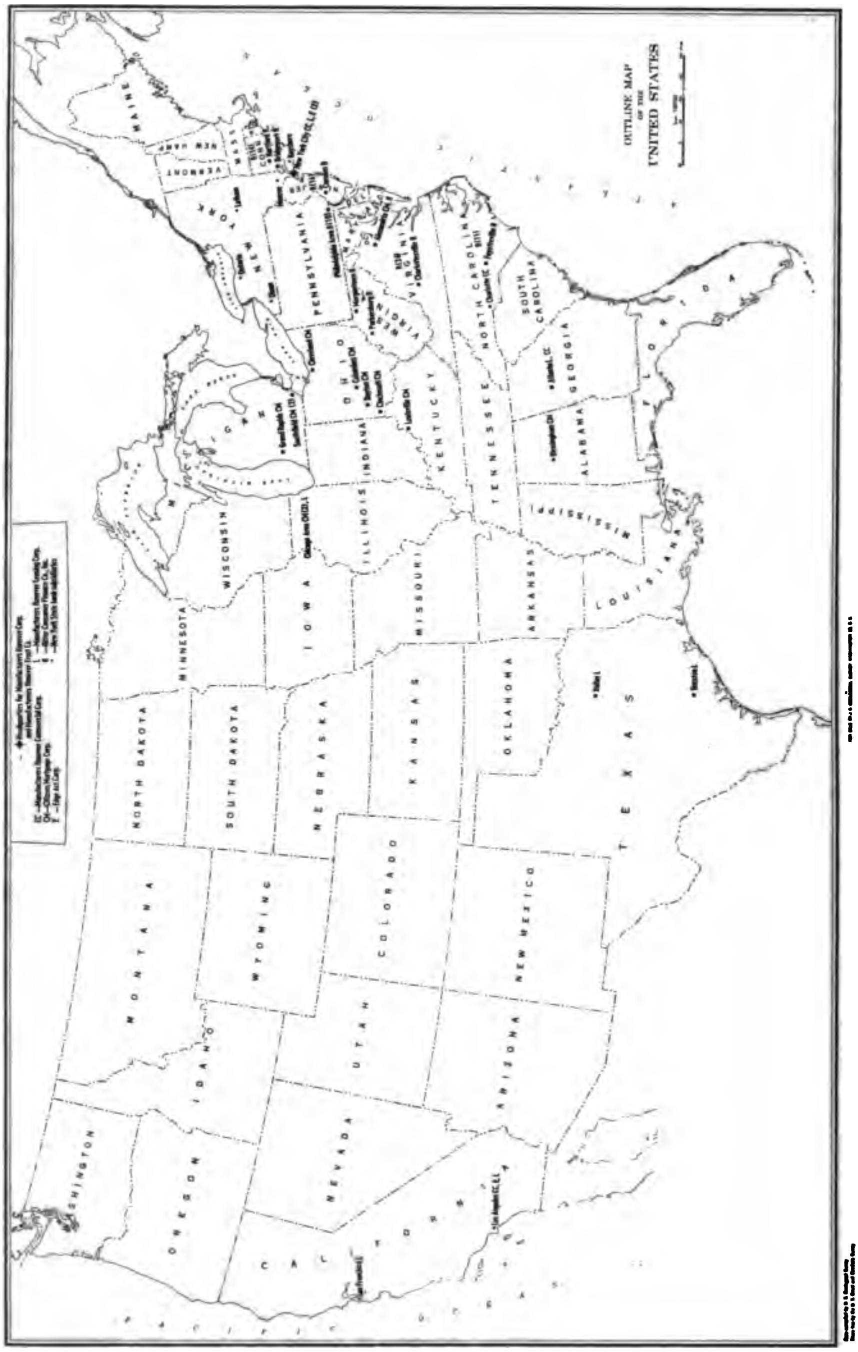
Chemical Bank has three Edge Act affiliates. They are Chemical International Finance, New York, which makes equity investments in foreign firms and Chemical Bank International of Chicago and Chemical Bank International of San Francisco which are both engaged in foreign related banking activities.

Currently Chemical has pending before the Fed an application for a third Edge Act bank in Houston.

The New York State banking subsidiaries of Chemical New York Corp. besides Chemical Bank are the $66 million-deposit Chemical Bank Hudson Valley, NA, Nyack, with 10 banking offices; the newly created Chemical Bank—Buffalo, with three offices, the $13.8 million-deposit Chemical Bank of Rochester, with five offices, the Chemical Bank-Eastern, NA, with three offices in the Albany area, Chemical Bank of Binghamton with one office, and the $2.7 million-deposit Chemical Bank of Syracuse with two offices.

Effective Nov. 10, the 13 offices of the $70 million-deposit Chemical Bank of Suffolk, NA, Smithtown, Long Island were opened as branches of Chemical Bank after obtaining approval for such a merger by New York State banking authorities.

The holding company has not yet announced what reorganization of its upstate banks it may make when statewide branching becomes effective in New York State Jan. 1, 1976. The over 273 branches of Chemical Bank in the New York area include 53 branches that were formely offices of Security National Bank, a Long Island Bank purchased by Chemical in January 1975 under the oversight of the Federal Deposit Insurance Corp.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NORTH CAROLINA
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WEST VIRGINIA
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[Reprinted from the American Banker, Nov. 5, 1975]

MANUFACTURERS HANOVER CORP. NONBANK OFFICES TOTAL 151 IN 15 STATES OUTSIDE NEW YORK

(By Michael Quint)

NEW YORK.—The $28 billion-asset Manufacturers Hanover Corp., holding company for the $23.4 billion-deposit Manufacturers Hanover Trust Co. here, has domestic nonbank subsidiaries with 151 offices in 15 states, not counting New York State.

In addition to the 171 New York City area branch offices of Manufacturers Hanover Trust Co., the fourth largest bank in the nation, the holding company includes three Edge Act subsidiaries and five smaller banks in upstate New York with a total of 42 branches.

The holding company's subsidiaries are engaged in consumer finance, selling and reinsuring credit related insurance, mortgage banking, leasing, factoring, and a full range of banking services.

Except for the factoring activity, which is conducted through a direct subsidiary of the bank and thus does not require it, the holding company's nonbank subsidiaries have been approved by the Federal Reserve Board.

Ritter Consumer Finance Co., Inc. is a Wyncote, Pa. based consumer finance company with 130 offices in Connecticut, New Jersey, North Carolina, Pennsylvania, Virginia, and West Virginia. The consumer finance company, which is a direct subsidiary of the holding company, is the largest part of Ritter Financial Corp., which Manufacturers Hanover purchased in January, 1975, after obtaining Federal Reserve approval the previous December. The holding company first announced its intention to acquire the consumer finance company in August, 1973.

In approving Manufacturers Hanover's foothold entry into the consumer finance business, the Fed reiterated its concern over two problems: diversification of bank holding companies that the Fed said were not well capitalized, and growth of banking assets faster than growth of capital accounts.

Despite these concerns the Fed approved the application though noting that the bank had recently "curtailed its loan and investment activities and has committed not to undertake new acquisitions of existing firms or venture into new activities in the months immediately ahead." The Fed also put numerous restrictions on the holding company's expansion of the newly acquired company into new geographic regions, the introduction of new product lines, and financing of the consumer loan company.

The Fed said that a program of geographic expansion and new product lines must first be approved by the regulatory agency. In its application, Manufacturers Hanover said it intended to add 85 Ritter Offices within three years in Delaware, Florida, Kentucky, Maryland, Massachusetts and West Virginia. The holding company also said it planned to introduce new products such as financing of sales finance contracts, second mortgage lending, loans by mail, small business loans, loans to local governments, revolving credit, and financial counseling.

Manufacturers Hanover discussed its intentions to expand the consumer finance subsidiary in the section of its application dealing with the public benefits that would result from the acquisition. Manufacturers Hanover said it would spend about $100 million in three years to fund this expansion.

Since the acquisition was approved, Ritter has opened three new offices-two in New Jersey and one in Virginia. These offices were approved by the Fed in August, 1975.

The Fed's approval also stipulated that Ritter must continue to finance itself through independent short-term bank financing "until such time and under such circumstances as the Board may deem appropriate." The holding company had proposed to reduce the consumer finance company's borrowing costs by funding it with proceeds of the holding company's commercial paper sales.

The Fed also required the holding company to freeze its dividend rate on common stock for one year. That condition ends in December, 1975.

Besides making small loans to individuals, Ritter sells credit related insurance and has a subsidiary, Ritter Life Insurance, Wyncote, that reinsures policies sold by Ritter.

Citizens Mortgage Corp., Southfield., Mich., is a mortgage banking subsidiary of the holding company with 12 offices located in Michigan, Alabama, Illinois, Ohio, Kentucky and Virginia. The company's primary activity is the originating and servicing of mortgage loans.

Manufacturers Hanover acquired Citizens Mortgage in November, 1973, after obtaining Federal Reserve approval the previous October. The holding company first announced its intention to purchase the mortgage banking subsidiary of U.S. Industries, Inc., New York in November, 1972.

However, its first application was denied by the Fed in June 1973. At that time, the Fed noted that both companies were likely competitors in local, regional and national mortgage banking markets and more favorable competitive results would ensue if Manufacturers Hanover entered those markets de novo or acquired a smaller firm. The Fed also said it viewed unfavorably a covenant between Manufacturers Hanover and U.S. Industries, parent company of Citizens Mortagage, that U.S. Industries would not engage in a business similar to Citizens Mortgage anywhere in the United States for five years.

Manufacturers Hanover asked for a review of the denial and the Fed reversed itself in October 1973. At that time it noted that U.S. Industries would not supply the mortgage banking firm with the necessary capital for future growth, which suggested that chances of the mortgage banking firm and the holding company becoming real competitors were very slender. The Fed also noted that the holding company offered assurance that mortgage interest fees could be reduced with the holding company affiliation.

Manufacturers Hanover also eliminated the covenant with U.S. Industries restricting that company's future activities when it asked the Fed for a review of the denial.

In approving the acquisition, the Fed said that Citizens Family Assurance Co., a reinsurance subsidiary of Citizens Mortgage, must be sold within two years. According to Manufacturers Hanover spokesmen, this reinsurance company has been divested.

Citizens Mortgage Corp., also acts as adviser to Citizens Mortgage Investment Trust, a publicly owned real estate investment trust.

The most recently opened of Citizens Mortgage's offices is the Arlington, Va., office facility which was approved by the Fed in November 1974. In approving the new office the Fed described the authorized activities as "mortgage banking business including, without limitations, arranging, making or acquiring, for its own account or for the account of other, loans and other extensions of credit; servicing loans and other extensions of credit; acting as investment adviser and manager to a real estate investment trust; providing bookkeeping or data processing services for Manufacturers Hanover Corp., its subsidiaries and affiliates, and storing and processing other banking, financial, or related economic data, such as performing payroll, accounts receivable, or billing services."

Manufacturers Hanover Leasing Corp. is a subsidiary of the holding company with offices in Los Angeles, San Francisco, Houston, Dallas, Des Plaines, Ill.; Atlanta and New York. The company was created in 1972 when the leasing activity was spun out of the bank, according to holding company officials. All of the offices have been approved by the Federal Reserve.

The leasing subsidiary is authorized by the Fed to lease personal property, subject to the limits of Regulation Y calling for the terms of the lease to fully compensate the lessor. Manufacturers Hanover's literature says the company is very active in arranging leveraged leases for big-ticket items as well as other leasing arrangements for the middle-market of $100,000 to $5 million.

Manufacturers Hanover Commercial Corp. is a direct subsidiary of the bank with offices in New York, Los Angeles, Atlanta, and Charlotte, N.C. engaged in factoring and other forms of accounts receivable financing. Federal Reserve approval of the activity or of the company's new offices has not been sought because the company is a subsidiary of the bank, officials explained.

The bank purchased the firm, an old-line factor known as Iselin-Jefferson Financial Co., Inc., New York, in early 1972. The first of the three regional offices was opened in Los Angeles in January, 1974.

The three Edge Act corporations within the holding company are all direct subsidiaries of the anchor bank. Two of them, Manufacturers Hanover International Finance Corp. and Manufacturers Hanover International Banking Corp., are New York-based companies which are vehicles for making investments in foreign companies. Manufacturers Hanover International Bank (Los Angeles) is an Edge Act corporation engaged in foreign-related banking activities since January, 1974.

In December, 1974 the bank withdrew applications it had filed with the Federal Reserve Board for new Edge Act banks in Atlanta, San Francisco, Houston and Chicago. Officials of the bank said then that the decision was the result of

internal review and analysis and not linked to the constraints suggested in the Fed's approval of its application to acquire Ritter Financial Corp.

Besides the New York-based anchor bank, Manufacturers Hanover has five subsidiary banks located in upstate New York, and Long Island. Acquisitions of the five existing banks were approved by the Federal Reserve between July, 1972 and June, 1973.

Currently the five smaller subsidiary banks are: the $95.9 million-deposit Manufacturers Hanover Trust Co./Suffolk, N. A., Bay Shore, Long Island, with 14 offices; the $30.9 million-deposit Manufacturers Hanover Trust Co./Mid-Hudson, Monroe, with eight offices in Orange and Rockland counties; the $44 million-deposit Manufacturers Hanover Trust Co. Genesee Region, Ontario, with six offices in the Rochester area; the $45.7 million — desposit Manufacturers Hanover Trust Co. Capital Region, Latham, with six offices in the Albany area; and the $48.5 million — deposit Manufacturers Hanover Trust Co./Western, N. A., Olean, with eight offices in the Buffalo area.

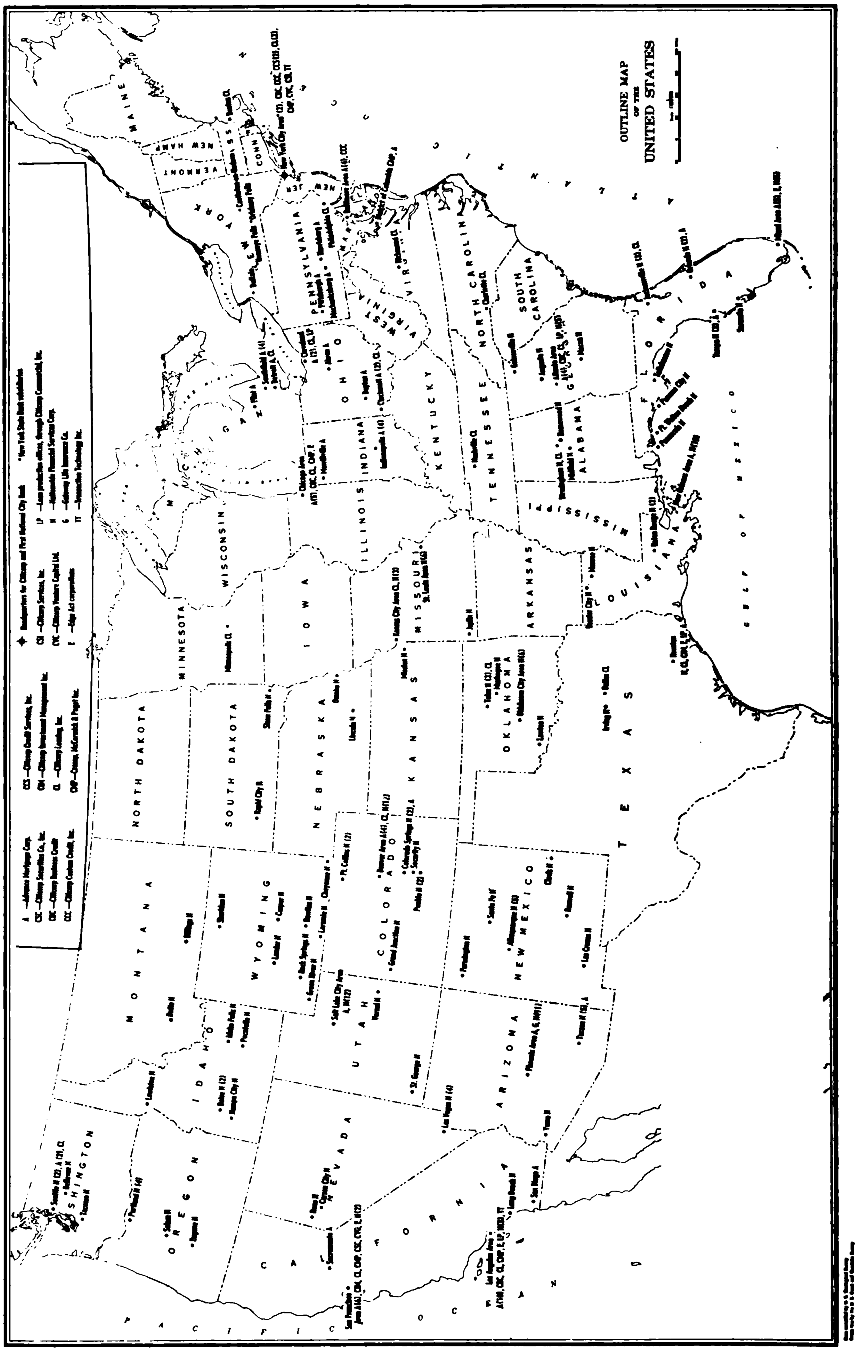
Last month, the holding company announced a reorganization plan for its New York state subsidiary banks. After statewide branching, becomes effective for New York Jan. 1, 1975, it intends to continue to have three regional banks with independent charters in the Buffalo, Rochester and Albany areas. Those banks would be Manufacturers Hanover Trust Co./Western, N. A.; Manufacturers Hanover Trust Co./Genesee Region; and Manufacturers Hanover Trust Co./Capital Region, respectively.

Subject to regulatory approval Manufacturers Hanover Trust Co./Mid-Hudson and Manufacturers Hanover Trust Co./Suffolk, N. A. would be merged with the anchor bank Manufacturers Hanover Trust Co.

Currently the holding company is in the process of applying for permission to acquire the $11.7 million-deposit Seaway National Bank, Watertown, with four offices. In June, 1975 it ended its attempts to purchase the $20.3 million-deposit Genesee Valley National Bank & Trust Co., Geneseo, with two offices.

Manufacturers Hanover Trust Co. conducts the largest U. S. Treasury securities clearance operation of any bank in the U. S. according to officials of the bank. The bank itself is not a dealer of Treasury securities. It is a dealer and underwriter of tax-exempt securities, however.

Manufacturers Hanover Trust Co. also maintains a full time trust officer in Albany who solicits business for the trust department of the anchor bank. This officer has an office in the Albany facility of Manufacturers Hanover Trust Co./Capital Region, Latham. At one time there were other such trust representatives on Long Island, in the Rochester area, and in the White Plains area, but they have been discontinued.


OUTLINE MAP OF THE UNITED STATES
MAINE
NEW YORK
PENNSYLVANIA
OHIO
INDIANA
ILLINOIS
KENTUCKY
TENNESSEE
NORTH CAROLINA
SOUTH CAROLINA
WEST VIRGINIA
ALABAMA
FLORIDA
LOUISIANA
ARKANSAS
MISSOURI
IOWA
WISCONSIN
MINNESOTA
NORTH DAKOTA
SOUTH DAKOTA
NEBRASKA
KANSAS
OKLAHOMA
TEXAS
NEW MEXICO
COLORADO
WYOMING
MONTANA
IDAHO
UTAH
ARIZONA
NEVADA
OREGON
CALIFORNIA
PACIFIC OCEAN
GULF OF MEXICO

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[Reprinted from the American Banker, Oct. 29, 1975]

284 Citicorp Nonbank Offices in 34 States

(By Michael Quint)

New York.—The $56.9 billion-asset Citicorp here, holding company for the $44.6 billion-deposit First National City Bank, has nonbank domestic subsidiaries outside New York City with a total of 284 offices in 164 cities and 34 states plus the District of Columbia.

In addition to First National City Bank, the largest retail bank in New York City with 251 offices, there are six smaller banks in New York State with a total of 50 offices. The six Edge Act banks within the holding company are located on both coasts as well as in Chicago and Houston.

In the introduction to Competition in Financial Services, a 1974 study by Cleveland A. Christophe about the financial services offered American consumers by nonbanks, Walter Wriston, chairman of Citicorp said, "The real advantage enjoyed by nonbanking firms is their right of entry into new geographic markets, and flexibility to introduce new products. The solution to this inequality lies not in increasing the regulatory burden of non-banking-based competitors which already are adequately supervised, but rather in expanding the flexibilities permitted banking-based firms."

Banking regulators so far have been flexible enough to allow, or at least not disallow, Citicorp's activities in consumer finance, selling and reinsuring credit-related insurance, mortgage banking, leasing, factoring and other asset-based commercial finance, management consulting, investment management, urban redevelopment, providing venture capital to small businesses, credit card services, travelers checks and travel services, operating loan production offices, and the full line of commercial banking services, including securities underwriting and distribution.

Most of the geographic expansion has been through the consumer finance, mortgage banking and leasing subsidiaries.

Nationwide Financial Services Corp., a St. Louis-based consumer finance company, has 170 offices in 112 different cities and 21 states. The company was known as Acceptance Finance Corp. before Citicorp acquired in it January, 1973, following Federal Reserve Board approval the previous December.

Expansion of Nationwide into new market areas has been achieved almost entirely by the opening of new offices rather than acquisitions. Citicorp has filed more formal applications with the Fed to open new offices for its consumer finance subsidiary than any other bank holding company. Beginning with applications submitted in March, 1973, Citicorp has sought, and obtained, approval for 93 new offices in 68 cities and 12 states. Subsidiaries of Nationwide now operate in six states—Idaho, Kansas, Nebraska, South Dakota, Texas, and Montana—where Acceptance did not have offices at the time it was acquired.

Nationwide has closed seven offices in that period, besides relocating many others.

Nationwide's offices identify it as a subsidiary of Citicorp, and all are linked by computers.

Besides the geographic expansion, Citicorp has created new subsidiaries of Nationwide offering consumers products different from those of traditional consumer finance companies.

Nationwide Financial Corp. of Colorado, from its Denver office, is offering executives and professional people a lending service through the mail. Qualified persons would be able to obtain a personal loan of up to $10,000, or more in some cases, or a line of credit. An application for this new activity was filed with the Federal Reserve in 1975.

Citicorp Person-to-Person Financial Centers Inc. with 19 offices in the Phoenix, New Orleans, Denver, and Salt Lake City markets are subsidiaries of Nationwide that compete with the other nationwide consumer finance offices in those markets. The activities of the Person-to-Person units, which the Fed approved in September and October, 1974, are consumer personal lending, purchase of consumer installment sales finance contracts, personal loans secured by equity in a house, making mortgage commitments for one to four-unit houses, arranging preauthorized consumer revolving credit which may be drawn down by filling out payment orders, and acting as a broker for the sale of credit-related insurance.

Nationwide has further broadened its scope of services by obtaining Fed approval for four industrial banks, two in Salt Lake City, one in Murray, Utah,

and one in Fort Collins, Colo. Currently an application for a fifth such bank, also known as Morris Plan banks or thrift and loans, in Ogden, Utah, is pending. In Utah, the activities of an industrial bank were added to the existing Person-to-Person offices, officials in the holding company explained. The Fort Collins industrial bank has been approved, but in Sept., 1975, the Fed grantee an extension of time for it to start business.

These industrial banks differ from other consumer loan outlets in Nationwide in that they gather funds at the retail level through the sale of thrift certificates rather than being funded only by the holding company's commercial paper or other outside borrowings. The thrift certificates sold by the industrial banks are for various maturities and offer interest rates slightly higher than those at savings and loan associations.

In Utah the three industrial banks have arranged with private insurers for $40,000 of insurance per person for thrift certificates. This was not arranged for the Fort Collins industrial bank because there was already an established Colorado guaranty program to cover holders of the certificates.

The industrial bank subsidiaries of Nationwide also act as agents for sales of credit-related insurance, just as do the regular offices of the consumer finance company. Additionally, the Fed's approvals in July, 1975, for two of the Salt Lake City industrial banks specified that they were allowed to sell life insurance equal to the difference between the maturity value of a deposit plan of periodic deposits over a specified term and the balance at the time of the depositor's death.

A Nationwide official noted that the industrial banks have not been operating long enough to discuss their experience.

He said that only in the last few months have there been enough such banks operating in the Salt Lake City market to warrant supporting them with advertising. He explained that Nationwide was just testing the concept in one market before deciding whether or not to open other such institutions in other markets.

The Person-to-Person companies are also a limited effort to test new products and their acceptance in just a few markets, the Nationwide official continued. The question of Person-to-Person's viability in its present form is still undecided, but he affirmed that some pieces of its product appear successful and might have value in other Nationwide offices. One such product was the interest-bearing nature of all Person-to-Person's personal loans rather than the precomputed method of payment based on scheduled rather than actual balances, he said.

In addition to the new offices and product lines of the various Nationwide subsidiaries, Citicorp has made continuing efforts to expand Nationwide's presence through acquisitions of existing companies in markets where it has little or no presence. Currently it has applications pending before the Fed to acquire three consumer finance companies with a total of 115 offices in seven states. In these applications it points to its efforts to open new offices and offer new services without acquiring existing companies.

Amfac Credit Corp., Los Angeles, with 28 offices in California, and West Coast Credit, Seattle, with 20 offices in Washington were both the subject of applications submitted to the Fed in October, 1974 and which the Board formally accepted in April, 1975.

An application to acquire Federal Discount Corp., Dubuque, Iowa, was also accepted by the Fed in May, 1975. Citicorp announced plans to purchase the consumer finance company, which has 67 offices in Iowa, Illinois, Minnesota, Wisconsin and North Dakota, in July, 1974.

The applications for all three of these companies stress the marketing economies of scale that would be realized if the purchases were approved. Citicorp points out that de novo expansion into the markets served by the three companies is hindered in some cases by state regulators and that it would take years to build up a system of offices comparable to those it wishes to acquire. It adds that perhaps the de novo expansion would never be undertaken because it would not be economically viable starting from such a small number of offices.

In the applications Citicorp points to its past record of de novo expansion and innovation through Person-to-Person. For example, in the West Coast application it explains that if Person-to-Person is successful," (and early returns suggest it will be) it can spread only to markets wherein Nationwide has, or can quickly have, sufficient presence to warrant the expenditure of funds on media advertising, transaction processing equipment and reduction of profit margins on loans." Without the 20 West Coast offices there is not a large enough presence to warrant

making these expenditures, Citicorp continues and so Washington consumers are deprived of the consumer finance alternative.

Citicorp says if it had the Amfac and West Coast offices it would be able to justify de novo expansion later. For example, it raises the possibility of opening new offices in Alaska if it acquires West Coast, but points out that neither it nor West Coast will be able to expand to that state unless the application is approved.

In the applications Citicorp points out that small unaffiliated consumer loan companies are often becoming less viable competitors of banks and large consumer loan companies. In the Amfac application for example, it says that without the benefits of economies of scale, small financial service companies are relegated to a narrow range of high cost credit services to a small and high risk segment of the population.

Besides the necessity of having a critical mass of offices to make aggressive media advertising economical, Citicorp cites several other advantages and economies that would occur if the small consumer finance companies were purchased.

Paper flows of the small consumer finance companies could be reduced by automation and new products that do not generate so much paper, Citicorp says. It cites specifically the use of an on-line computer system, preauthorized credit arrangements and the use of credit cards.

A bank holding company also has the advantage of lower cost funds, greater access to capital, broader product lines to cover the fixed costs of the consumer finance company and tax benefits, Citicorp claims. It notes in its applications the new products it has introduced since the acquisition of Nationwide and says it will continue to introduce new products if the acquisitions are approved.

The application for West Coast explains the type of relationship of consumer to financial service company that Citicorp is seeking. First, it notes there would be more consumer confidence in the finance company because of the link with Citicorp. It continues to note that there would be a consumer education staff that would "strive to generate a rapport with its consumer customers as yet undeveloped outside the credit union movement's common bond philosophy." The aim is for "society to view credit as a resource rather than a last resort," Citicorp says.

The Nationwide consumer finance offices act as insurance agents or brokers for the sale of credit related insurance, but do not provide general insurance advice. In each state where Nationwide has offices there is a Retlaw Agency Corp. which performs this function out of the consumer finance offices.

Gateway Life Insurance Co. is a Phoenix-based subsidiary company of Nationwide which reinsures the credit-related insurance policies that the Retlaw Agencies have placed with independent underwriters.

Advance Mortgage Co., Southfield, Mich., is a mortgage banking firm with 71 offices in 44 towns and 16 states, plus the District of Columbia.

The company was acquired by Citicorp in July, 1970, but approval from the Federal Reserve Board to retain the shares has not yet been obtained. In the absence of this specific approval, the mortgage banking company has continued to expand to a point where it is now the second largest servicer of mortgages in the nation and has opened new offices in Seattle, Phoenix, Tucson, and Houston.

The Fed, when it denied approval for Citicorp to retain Advance in December, 1973, cited the undue concentration of resources that would result. At that time Advance was only the fifth largest servicer of mortgage loans.

However, the Fed's denial was worded to allow Citicorp to resubmit an application before the end of 1980. If the ownership has not been approved by then, the Bank Holding Company Act Amendments of 1970 call for the subsidiary to be divested. Citicorp currently has no formal application to retain Advance before the Federal Reserve.

While the Fed has not approved Citicorp's ownership of Advance, it has favorably considered applications by Citicorp to expand the mortgage banking company. In August, 1973 the Fed approved a new Advance office in Seattle, in October of the same year it approved offices in Tucson and Phoenix, Ariz., and in November it approved a new office in Houston.

Lakeland Assurance, Inc., Phoenix, is a direct subsidiary of Advance which reinsures insurance policies made available to mortgagors whose mortgages are being serviced by Advance.

Citicorp Leasing, Inc. is a direct subsidiary of the holding company with 23 cities in 20 states, including the New York City office. (Besides the New York office, there is an office in Cranford, N.J., indicated as being in the New York area

on the map.) The company is primarily engaged in leasing capital equipment to the middle market of $25,000 to $5 million. It offers corporate customers a wide variety of tailored leasing programs, advice, and financial assistance. A spokesman noted that there is referral of customers between the leasing and banking businesses of Citicorp, and that the two compete with each other to the extent that a company has alternatives between a bank loan or a lease.

The status of Citicorp Leasing with the Federal Reserve is not yet clear, an official of the holding company noted. Citicorp has not yet applied for approval to retain the company and it is not certain that the approval is necessary, he said.

Citicorp has not sought Fed approval for any of the regional offices of Citicorp Leasing or for the leasing company's activities.

The uncertainty arises because Citicorp Leasing is engaged in activities that the Comptroller of the Currency had approved as appropriate for national banks, but then the company was spun out of the bank in 1969. The Bank Holding Company Act Amendments of 1970 specified that subsidiaries of a holding company that were active on June 30, 1968, need not seek Fed approval, through the Fed could of its own volition require that the activity be terminated. Companies which began operating between June 30, 1968, and the start of 1971 must obtain the Fed's approval before 1981. Some lawyers at Citicorp note that the bank was engaged in the same leasing activities prior to June 30, 1968 as Citicorp Leasing is engaged in now, and that the spin-out to a separate company in 1969 does not mean that Citicorp Leasing lost any characteristics of the bank's activity. Others say that approval should be obtained because Citicorp Leasing is a subsidiary of the holding company that was created in 1969 and that therefore it falls within the quasi-grandfathered period and must obtain approval by 1981.

Citicorp Business Credit is a factoring company with representative offices in Atlanta, Chicago, and Los Angeles besides its New York City headquarters. It is the successor of Citicorp Factors, Inc., which in turn followed Hubshman Factors Corp., an old line factoring company acquired by the bank in 1965.

Citicorp officials noted that Citicorp Business Credit's activities have broadened into a wider variety of asset-based financing than just pure factoring. To the extent that a corporation has alternatives between selling its short term assets, leasing, or borrowing from a bank, the various Citicorp subsidiaries are competing with each other. There is also referral of customers among the different companies.

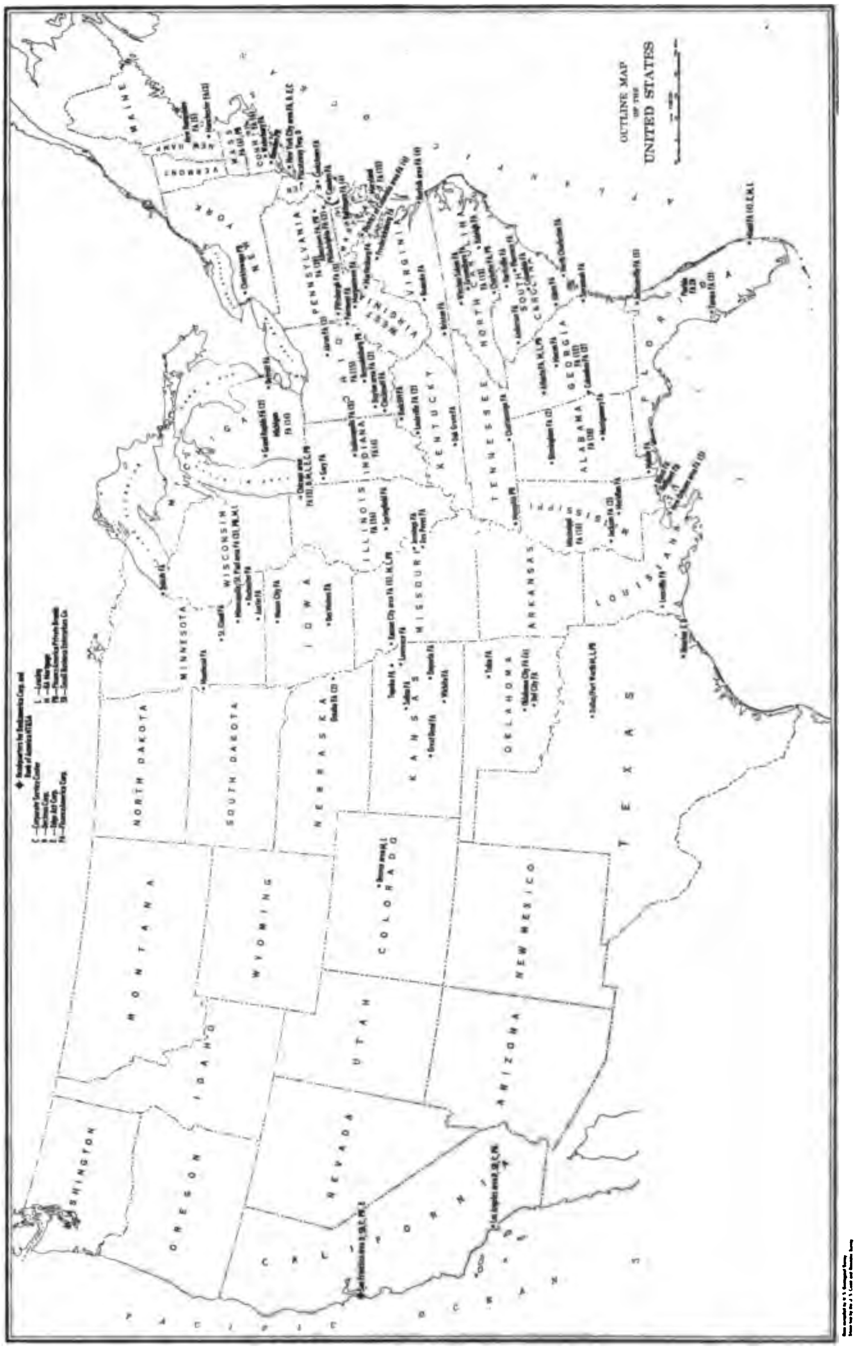
All the transactions generated by a representative Citicorp Business Credit office are routed through New York City, it was explained. To open offices that could handle transactions on the spot would require approval by the Federal Reserve Board, as that would be a new activity, a Citicorp official said. Like Citicorp Leasing, Citicorp Business Credit was within the bank until the holding company structure was established.

Cresap, McCormick & Paget, Inc. is a management counsulting firm with offices in New York City, Washington, San Francisco, Los Angeles, and Chicago. The firm, which offers a broad range of management consulting services to businesses, governments, and other institutions, is a direct subsidiary of the holding company and was acquired in 1970.

Like Advance Mortgage the firm was acquired prior to the effective date of the 1970 amendments to the Bank Holding Company Act, so the Fed's approval for the ownership must be obtained before the start of 1981. Otherwise the company must be divested.

Citicorp has not yet applied for permission to retain the company and the Federal Reserve has not yet determined that providing management consulting services for firms other than a holding company's subsidiaries is a permitted banking related activity for holding company.

Citicorp Investment Management, Inc. offers portfolio investment advice from offices in Houston and San Francisco. The Federal Reserve's approval in February, 1973 of the first office in Houston said that the new activity would consist of providing portfolio investment advice to individuals, partnerships, corporations, trusts, and others as well as providing general economic advice including statistical forecasting services, and industry studies.


OUTLINE MAP OF THE UNITED STATES
WASHINGTON
OREGON
CALIFORNIA
NEVADA
IDAHO
MONTANA
WYOMING
UTAH
ARIZONA
COLORADO
NEW MEXICO
NORTH DAKOTA
SOUTH DAKOTA
NEBRASKA
KANSAS
OKLAHOMA
TEXAS
MINNESOTA
IOWA
MISSOURI
ARKANSAS
LOUISIANA
WISCONSIN
ILLINOIS
INDIANA
KENTUCKY
TENNESSEE
ALABAMA
GEORGIA
FLORIDA
SOUTH CAROLINA
NORTH CAROLINA
VIRGINIA
WEST VIRGINIA
PENNSYLVANIA
NEW YORK
VERMONT
MAINE

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NATIONWIDE SPREAD OF BHCs: 339 NONBANK OFFICES OF BANKAMERICA CORP. IN 32 STATES

(By Michael Quint)

NEW YORK.—The $64.2 billion-asset BankAmerica Corp., San Francisco, holding company for the $52.3 billion-deposit Bank of America NT&SA, will have 339 nonbank offices in 32 states after it divests itself of some consumer finance offices in the western United States.

Bank of America, besides its 1,045 branches in California, has five Edge Act corporations, a securities trading operation in New York City, and four corporate service centers.

The holding company's subsidiaries are engaged in consumer and sales finance, commercial lending, mortgage banking, selling and reinsuring credit-related insurance, leasing, computer services, investment management, providing venture capital to businesses in the U.S. and abroad, marketing travelers' checks, and a full range of banking services.

BankAmerica's most geographically dispersed domestic subsidiary is Finance-America Corp., an Allentown, Pa., consumer finance company known as GAC Finance, Inc., until August, 1974. After the proposed sale of 127 consumer finance offices in 12 western states, announced Sept. 18, 1975, is completed, Finance-America will have 317 offices in 31 states. BankAmerica acquired the company in January, 1974, after obtaining Federal Reserve Board approval in the preceding month.

The offices to be sold in the western U.S. are omitted from the accompanying map.

When the Fed approved the acquisition, BankAmerica agreed to divest the consumer finance offices in California, Oregon, Washington, Arizona, New Mexico, Texas, Idaho, Montana, Wyoming, North Dakota, South Dakota and Colorado, as well as some other assets of GAC Finance, Inc.

The offices in the 12 affected states have been operated under the name of GAC Finance pending the sale. The agreement calls for them to be purchased by ITT Financial Corp., a subsidiary of International Telephone & Telegraph.

BankAmerica will be allowed to reenter the consumer finance business in those 12 states through an acquisition or by creating a new office, but any such expansion will require Federal Reserve Board approval.

BankAmerica officials noted that the holding company must still arrange to sell the General Rediscount Corp. portion of FinanceAmerica Corp. Selling General Rediscount would be the final step in complying with the divestiture requirements contained in the Fed's approval of the holding company's acquisition of the consumer finance company. This division provides financing for other small consumer finance companies.

The exact number and locations of consumer finance offices shift frequently because of changing growth patterns in cities and internal reorganization, a FinanceAmerica official noted. The locations shown on the accompanying map are based on an internal FinanceAmerica roster as of June 30. The map does not include seven offices of FinanceAmerica which are engaged in collection of bad loans made by other offices.

An official of FinanceAmerica noted that approval of the Federal Reserve is necessary to open new offices or to relocate an office by more than a mile. Approval is not necessary to close an office, he added.

FinanceAmerica's advertisements and store signs identify it as "A BankAmerica Company" or "A BankAmerica Financial Service Company."

The largest portion of FinanceAmerica's business is in the consumer credit division, which makes personal loans where permitted and also finances consumers' purchases of appliances, furniture and other goods from retailers. In February, 1975, FinanceAmerica said there were 303 offices in this division and that 259 of them offered loans secured by second mortgages. Subject to state laws, the consumer loan offices also sell credit-related insurance.

An Oklahoma City office is the base for a loan program offered to professionals and executives in 16 states by mail.

FinanceAmerica said the offices in the consumer credit division are linked by an on-line, real-time computer system. FinanceAmerica officials said the company does not use the services of Decimus Corp, another BankAmerica subsidiary offering computer services.

Beginning in July, 1974, six FinanceAmerica loan offices in Pennsylvania started selling BankAmerica Travelers Cheques. This activity was extended to the remainder of the FinanceAmerica loan offices in that state at the start of 1975 and officials said that they plan to expand the activity to other states.

FinanceAmerica Private Brands is the largest element in the diversified division of FinanceAmerica. The Private Brands offices in Los Angeles, San Francisco, and Dallas were not included in the sale agreement though they are located in states where the consumer finance offices are to be divested.

In its promotional literature, FinanceAmerica explains that the Private Brands financing provides a manufacturer or wholesaler with a credit line necessary in distributing products to dealers. It notes that the client can have Private Brands set up a special company with the name identified with the client or product, or that the company can use its own money and Private Brands only as manager.

"Utilizing on-line data processing, Private Brands furnished marketing and credit data, financial records, analyses of sales performance and reports of product turn-over," FinanceAmerica explained.

In an application in April, 1974, to the Fed to change the location of the Allentown, Pa., branch of Private Brands, its activities were described as engaging "in providing funds and or credit services in connection with financing of stock and floor plan inventory of distributors and dealers of consumer products; makes available at dealers option and cost, fire, theft, and damage insurance on a monthly reporting basis covering only outstanding indebtedness on such floor plan inventory."

FinanceAmerica Management Services offers retail clients credit or services. Besides providing marketing information, it can perform all the functions of a credit department for a retailer.

Other activities of FinanceAmerica Management Services include servicing student loans for correspondence schools and big ticket items for nonconsumers, the company said.

The commercial division of FinanceAmerica began operations in Oct. 1974, after the company was acquired by BankAmerica and has only one office in Allentown. The division provides credit secured by receivables, machinery, equipment and inventories. It also will make loans secured by the borrowers' real estate, according to FinanceAmerica.

An official in the division explained that it is not the factoring business. In its promotional literature, FinanceAmerica said it plans to establish regional offices for this division as its volume of business expands.

Besides the real estate lending of the bank, BankAmerica Corp. has a mortgage banking subsidiary operating in eight cities in eight states. Originally there were three subsidiaries created de novo, but at the end of 1974 they were consolidated into BA Mortgage Co., Inc. The holding company's annual report explained that BA Mortgage Co. differs from the bank in that it originates mortgages but then sells them to institutional investors, retaining only the servicing.

BA Mortgage Co. of Denver, Inc., was the first to be established and was permitted by the Federal Reserve in August, 1972, to open a Denver office that would make or acquire for its own account or for the account of others loans and other extensions of credit, as would be made by a mortgage company.

The Fed's approval specifically noted that the permitted activities included the development, making, placement and servicing of mortgage loan investments on residential, industrial and commercial property.

In April, 1974, the Fed approved the creation of BA Mortgage Co. of Texas, Dallas, with the same authorized activities as the Denver-based company.

BA Mortgage Co., Inc., was approved by the Fed in June, 1974, with offices in Miami, Atlanta, and San Francisco. Its permitted activities were the same as for the two existing mortgage banking subsidiaries. In October, 1974, the Fed permitted BA Mortgage to open additional office in Minneapolis, Kansas City and Chicago.

In addition to the nonbank mortgage banking firms, BankAmerica has other subsidiaries engaged in real estate advice, lending against mortgages or making mortgages on recreational properties.

BankAmerica Realty Services, Inc., San Francisco, was authorized by the Fed in August, 1971 to act as an investment adviser to BankAmerica Realty Investors, a real estate investment trust, and to provide advice on real estate matters to BankAmerica Corp. and its affiliates. At the time of the approval, the Fed also denied permission to "establish and sell limited partnership interest

in real estate syndicates and to provide investment advice and management for such syndications as the general partner thereof."

BankAmerica Realty Investors is publicly owned and is not a subsidiary of the holding company or the bank.

Western America Financial, Inc., San Francisco, is a subsidiary of the holding company that was authorized by the Fed in August, 1971, to purchase notes secured by deeds of trust and mortgages covering recreation land or recreation homes.

BankAmerica's leasing activities through its nonbank subsidiaries were authorized by the Fed in January, 1975, when it approved the activity in the offices of the BA Mortgage companies, except San Francisco. The language in the Fed's approval for the leasing activity closely follows that of Regulation Y requiring the lease to be a functional equivalent of an extension of credit and that terms of the lease, including tax benefits, will yield a return to the lessor sufficient to cover the full cost of the property, including the cost of financing the property.

A spokesman for the holding company noted that although the Fed has authorized leasing of real property at the BA Mortgage Co. locations little of this activity has been done. He added, however, that the holding company was studying the possibility of engaging in the leasing business at those offices and perhaps expanding the activity to include personal property.

The primary leasing company within the holding company is BA Leasing Corp., San Francisco, a direct subsidiary of the bank that was formed in 1971 to engage in the leasing business in a similar manner to the bank. All leasing business out of California is booked through BA Leading Corp., officials said. They noted also that in the last two years leases generated through Decimus Corp. have been booked through BA Leasing.

BA Insurance Agency, Inc., and BA Insurance Co., Inc., both in San Francisco, are subsidiaries of the holding company that were approved by the Federal Reserve in May and December, 1973, respectively. They are involved in selling and reinsuring insurance contracts related to extensions of credit made by Bank of America only and operate only in California.

BA Insurance Agency acts as an insurance agent for sales of credit life and disability insurance related to extensions of credit by the bank, including Timeplan loans. In January, 1975, the agency also was authorized to act as an agent for sales of mortgage redemption and disability insurance related credit extended by the bank.

The primary insurer for insurance contracts sold by BA Insurance Agency is Occidental Life Insurance Co. of California, Los Angeles, a subsidiary of Transamerica Corp.

Occidental, in turn, reinsures insurance sold by the BA Insurance Agency with BA Insurance Co., a wholly owned subsidiary of BankAmerica. Officials noted that BA Insurance Co. reinsures only insurance contracts related to extensions of credit by Bank of America.

Decimus Corp., with six offices in five states, is a subsidiary of the holding company that was approved by the Federal Reserve in April, 1972. It has offices in San Francisco; Glendale, Calif.; New York; Elk Grove, Ill.; Houston, and Piscataway Township, New Jersey. All these offices, except for the one in New Jersey, were authorized in April, 1972. The New Jersey office, located midway between New York City and Philadelphia, was approved in October, 1974.

The Fed's approval of the Decimus offices listed several activities. It may engage in full payout leasing of personal property, primarily computer equipment, or act as an agent or adviser for such a lease. Also, it may store or process data used by financial institutions, such as demand deposit accounting, general ledger accounting, account reconciliation, installment loan accounting, mortgage loan accounting, savings accounting, credit union accounting, commercial loan accounting. It also may store and process financial and accounting data for nonfinancial institutions relating to payrolls, accounts receivable or payable and other billing services.

Additionally, Decimus Corp. was authorized to provide bookkeeping or data processing services for the internal operations of BankAmerica and its affiliates.

According to officials of BankAmerica Corp., Decimus has been the largest independent processor of demand deposits for commercial banks in California for several years. Decimus is about 94% owned by BankAmerica.

Decimus Computer Leasing Corp. was approved by the Federal Reserve in July, 1972, to lease computer equipment, primarily to large corporations, in the same locations as Decimus Corp., except for Piscataway Township, N.J., which

had not yet been established. Decimus Computer Leasing is 80% owned by BankAmerica and 20% by Decimus.

BA Investment Management Corp., San Francisco, a subsidiary of the holding company approved by the Federal Reserve in July, 1972, provides investment management and research services for the Bank of America trust department and institutional tax-exempt funds. It also is the adviser to Montgomery St. Income Securities, Inc. San Francisco, a closed-end investment company that is now publicly owned, but was originally sponsored by Bank of America.

Subsidiaries of the Bank of America with offices outside of California are its corporate service centers, Edge Act banks and an office of its bank investment securities division in New York City.

The four corporate service centers, or loan production offices, are located in Chicago, New York, Los Angeles and San Francisco. These offices do not accept deposits.

The Edge Act subsidiaries of Bank of America are located in New York, Chicago, Miami, Houston and San Francisco.

Bank of America (New York) is the oldest Edge Act bank in the country, established in 1948. This bank makes investments in foreign companies, as well as engaging in internationally related commercial banking.

The newest Edge Act subsidiaries were all established or approved by the Federal Reserve in 1971. They are Bank of America International of Chicago, of Florida and of Texas.

Another Edge Act subsidiary, Bamerical International Financial Corp., San Francisco, was established in 1962 but differs significantly in function from the others. Its primary activity is the providing of venture capital to foreign companies through investments, rather than commerical banking.

In addition to Bamerical, there are two other companies that provide venture capital to small businesses.

Small Business Enterprises Co., with offices in San Francisco and Los Angeles, is a small business investment company that is a subsidiary of the bank. Formed in 1959, it provides venture capital to small firms throughout the U.S., but primarily in California.

WestVen Management, based in San Francisco and formed in 1970 is a subsidiary of the holding company that manages a partnership called Western Investment Associates, which provides venture capital to foreign and domestic companies. BankAmerica is the principal partner in Western Management which in turn is the general partner of Western Investment Associates.

The partnership has not been approved by the Federal Reserve, but officials of the holding company noted it was established prior to the Bank Holding Company Amendments of 1970.

They said terms of the partnership calls for it to dissolve in 1978 and if BankAmerica were to set up a similar activity then, it would be necessary to obtain the Fed's approval.

BA Cheque Corp., San Francisco, which was approved by the Federal Reserve in June, 1973, markets and distributes the travelers checks which are issued by BankAmerica Corp. It is a subsidiary of the holding company. The checks are payable through Bank of America, which is reimbursed for its costs. By making the holding company the issuer rather than the bank, costs of the business were reduced by eliminating the need to maintain reserves against checks outstanding, the application to the Fed explained.

Senator McIntyre. Thank you. Go right ahead, Mr. Volckhausen.

STATEMENT OF WILLIAM VOLCKHAUSEN, SPECIAL COUNSEL TO THE NEW YORK STATE SUPERINTENDENT OF BANKS, NEW YORK STATE BANKING DEPARTMENT

Mr. Volckhausen. My name is William Volckhausen and I'm special counsel to the superintendent of banks of the State of New York. I am appearing this morning for superintendent of banks John Heiman who is unable to be here. I am grateful for the opportunity to appear before the subcommittee to testify on the International Banking Act of 1976.

As the leading center in the United States of international banking, the State of New York is deeply interested in this proposed act. In addition to being the headquarters for a number of American banks with extensive activities abroad, foreign banking organizations own and operate in New York State some 105 licensed entities: agencies, branches, investment companies, and subsidiary banks whose assets in June of this year exceeded $43 billion, the largest concentration of foreign banking assets in any State.

This morning in my oral statement I would like to limit my comments to a couple of broad issues which have been raised by this proposed legislation.

The New York State Banking Department is opposed to the passage of this legislation in its present form, most importantly, because the act will tend to freeze the development of foreign banking into its present geographical mold. Many parts of our country are developing an import and export business and, as a consequence of legislation such as this, would be unable to attract the foreign facilities which normally accompany and finance such development.

It would seem to us that the regulation of foreign banking in the United States should function with the goal of encouraging that foreign banking presence to sustain and invigorate the *various* American centers of international trade and finance so as to facilitate the flow of capital through the United States capital markets and the movement of trade into and out of the country. Moreover, this legislation will foreclose many States from attracting full service foreign branches to improve the competitive climate in their domestic banking markets.

The New York State Banking Department takes this position on this legislation despite the fact that, at first glance, the act would seem to be beneficial to New York in that it would encourage foreign banks seeking entry to set up in New York the single branch permitted by this act. Further reflection on this point, however, suggests that the act's benefit to New York is probably marginal since New York is the money market center of the United States and the world and most banks interested in expansion in the United States would seek a New York presence. In other words, foreign banks would most likely choose to center their American banking activity in New York for reasons having little to do with anything written into the International Banking Act of 1976.

The primary impact of the act in this regard would be to deny to States other than New York, and perhaps California, the presence of foreign banks. It is our understanding that other States, for example, Illinois, Massachusetts, Oregon and Georgia and others, are increasingly eager to attract foreign banking organizations to carry on business within their borders.

Denying to individual States the option of inviting foreign banks to establish branches, however, is only one of several of the act's proposed changes which raise significant and complex issues. For example, the act would impose upon foreign banking organizations reserves and other requirements of membership in the Federal Reserve System. Is the imposition of these restraints necessary, and is it equitable, when it is remembered that for domestic banks membership is voluntary?

So extensive is the act's increase in the authority of the Federal Reserve Board over foreign banking that it may fairly be said to

amount to substantial preemption of State authority. This is contrary to the duality of powers with respect to domestic banks which most observers agree has served well in fostering a banking system which has been responsive to the Nation's banking needs. This Federal preemption would be unfortunate and would set a troubling precedent.

The act would also apply the restrictions of the Bank Holding Company Act to the U.S. nonbanking activities, especially securities activities, of foreign banking organizations. But this proposed change is particularly ill-timed since the Senate Subcommittee on Securities is conducting a study on the restrictions on bank activity imposed by the Glass-Steagall Act. It would seem to be sensible to look to the completed study and to its considered conclusions as the basis for congressional action.

The act also requires, in lieu of FDIC insurance, the maintenance of a surety bond or a pledge of assets by the foreign banking organization to protect depositors. The lack of specificity in the language of this section, however, leaves open the possibility of problems of administration and cost. In addition, the question arises as to whether the scope of protection to be afforded depositors would be as effective as that afforded by the well developed system of FDIC insurance. What is needed is a thorough and thoughtful analysis of the feasibility of deposit insurance, not an untested alternative that has come easily to hand.

Taken together, then, the proposed act would impose upon foreign banking organizations in the United States a number of new restraints and burdens which may well invite retaliation by foreign countries against the activities of American banks abroad.

In summary, the changes proposed by the act are the subject of considerable debate and are, in general, ill-advised. The New York State Banking Department urges that no action be taken on this legislation at this time. Thank you, Mr. Chairman.

[Complete statement follows:]

PREPARED STATEMENT OF LEONARD LAPIDUS, NEW YORK STATE FIRST DEPUTY SUPERINTENDENT OF BANKS

My name is Leonard Lapidus, First Deputy Superintendent of Banks of the State of New York. I am grateful for the opportunity to appear before the Subcommittee on Financial Institutions, a subcommittee of the Committee on Banking, Housing, and Urban Affairs. The Subcommittee has invited my testimony on the International Banking Act of 1976.

As the leading center in the United States of international banking, the State of New York is deeply interested in the proposed Act. In addition to being the headquarters city for a number of American banks with extensive activities abroad, foreign banking organizations own and operate in New York State some 105 licensed entities: agencies, branches, investment companies and subsidiary banks whose assets exceed $43 billion. (Figures, June, 1976). Through more than 100 years of supervision of foreign banking activity, New York State has developed a regulatory structure through which the State has emerged as a center of world finance. Drawing upon this extensive experience in the regulation of foreign banks, I would now like to comment on the International Banking Act of 1976.

Summary of New York State Banking Department position. The views of the Banking Department on the Act may be summarized as follows:

(1) The Act would impose upon foreign banking organizations reserves and other requirements of membership in the Federal Reserve System, prohibitions on interstate branching, and the Bank Holding Company Act restraints on nonbanking activities. In so doing the Act may invite retaliation by other countries against

the activities of American banks abroad.[1] These activities involve three times the total assets of foreign banks in the U.S.

(2) The Act increases the authority of the Federal Reserve Board over foreign banking in the U.S. to the point of substantially preempting State authority. This is contrary to the duality of powers with respect to domestic banks which has served well in fostering a banking system which has been responsive to the nation's financial needs. This precedent of Federal preemption would be unfortunate.

(3) By eliminating interstate branching and requiring foreign banks to choose a "home" state, the Act will tend to freeze the development of foreign banking into its present geographic mold. Many parts of our country are developing an import and export business and as a consequence of legislation such as this would be unable to attract the foreign facilities which normally accompany and finance such development. Moreover, many states would be foreclosed from attracting full service foreign branches to improve the competitive climate in their domestic banking markets.

At first glance, the Act would seem to be beneficial to New York in that it would encourage foreign banks seeking entry to set up their single branch in New York. Further reflection on this point, however, suggests that the Act's benefit to New York is probably marginal since New York is the money market center of the U.S. and the world, and most foreign banks interested in expansion in the United States would seek a New York presence. In other words, foreign banks will most likely choose to center their American banking activity in New York for reasons having little to do with anything written into the International Banking Act of 1976. The primary impact of the Act in this regard would be to deny to states other than New York and perhaps, California, the presence of foreign banks.

Principles of regulation of foreign banks. The New York State Banking Department believes that the regulation of foreign banking should be consistent with certain principles:

(1) It should be a central purpose of any system of regulation of foreign banking to sustain and invigorate the American centers of international trade and finance so as to facilitate thereby the flow of capital through the U.S. capital markets and the movement of trade into and out of the U.S.

(2) The structure of regulation which is established should seek, for foreign banks, to provide the same opportunities and to impose the same limitations as presently exist for domestic banks. The goal should be equality of options and equality of treatment once an option has been selected.

(3) It is a fundamental tenet of the American dual banking system that supervisory authority is decentralized so that bank entry and conditions of bank operation are determined in response to locally perceived needs. The demands of New York and Chicago money market centers are vastly different from those of suburban counties or rural sectors. While the resultant system of mixed federal and state regulation is complex, it has worked well with respect to supervision of foreign bank activity in the U.S. There has been no evidence brought forward that this system has impeded the attainment of national policy objectives.

Building upon the foundation of these principles, the Banking Department would make the following comments upon the proposed International Banking Act of 1976. While not dealing with all subjects covered by the bill, this statement touches on those issues of greatest concern to the Department.

Federal Reserve Board authority (section 7).—The bill would expand greatly the authority of the Federal Reserve Board to regulate foreign banking. Specifically, section 7(a) would authorize the Federal Reserve Board to make the branches, agencies, and commercial lending companies controlled by foreign banks subject to reserve requirements and interest rate controls imposed on Federal Reserve member banks. Foreign bank offices will not be subject to reserve requirements if the worldwide banking assets of the parent do not exceed $1 billion.

Section 7 would also authorize the Federal Reserve Board to impose reporting and examination requirements and further regulations and restraints upon State-licensed branches, agencies, and commercial lending companies of foreign banks as if these offices were member banks of the Federal Reserve System.

Finally, section 7(e) provides that the establishment of any branch, agency or commercial lending company pursuant to state law must be approved by the Federal Reserve Board.

Comment. At present U.S. banks are free to seek charters from State banking authorities to engage in a full scale banking business without seeking approval

[1] See appendix A.

from federal regulatory authorities, provided they choose not to become Fed members or to operate as bank holding companies. Equality of treatment requires that the same option be open to foreign banks, i.e., with the approval of State banking authorities, they should be able to establish a banking operation without being subject to a veto by the Federal Reserve Board. Furthermore, no showing has been made that State approval of foreign bank activity in the U.S. has in any way run counter to the U.S. national interest. New York State authorities have consulted regularly with Federal bank regulators and the State Department with respect to foreign bank entry.

The New York State Banking Department urges the elimination of the Act's grant to the Federal Reserve Board of a veto over foreign bank entry into the United States.

The agencies and commercial lending companies of foreign banks are barred from accepting deposits. Therefore, they do not function as banks. They are, in effect, nonbank subsidiaries and should be treated like the nonbank subsidiaries of domestic banks. The Federal Reserve Board should not be authorized to impose upon them reserve requirements and other regulations and restraints as if they were member banks. The Banking Department suggests that the terms "agency" and "commercial lending company" be deleted entirely from section 7.

With respect to branches of foreign banks, it may be argued that since U.S. banks do not have to become Fed members, it is discriminatory to foreign banks to subject them to required reserves equivalent to those imposed on member banks. On the other hand, it is true that virtually all U.S. banks with over $1 billion in assets are, in fact, members of the Federal Reserve System. Thus, to subject the branches of foreign banks with worldwide assets of over $1 billion to the Fed's reserve requirements is not inequitable—if equity is judged by the present reality of domestic bank operation. The imposition of reserve requirements for foreign branches is also supported by the comments set forth in the third paragraph of page 3 of the report of the House of Representatives Committee on Banking, Currency, and Housing of May 26, 1976 (No. 94–1193).

Apart from the imposition of reserves, however, the Federal Reserve Board should not be permitted virtually to preempt the regulation of state-licensed foreign branches by being granted authority to conduct examinations and to impose additional regulations as if these entities were member banks. The Banking Department has for some time co-operated closely with the Federal Reserve Bank of New York to insure that the Reserve Bank receives all the information it needs to effectuate monetary policy and to discharge any of its other responsibilities. The Reserve Bank, for example, receives from every foreign banking organization in New York on a monthly basis a copy of a report of condition submitted to the Banking Department. This report was designed jointly by the Banking Department and the Reserve Bank.

The Act's grant of broadly expanded authority to the Federal Reserve Board is unneeded, and the Banking Department urges that it be eliminated.

Interstate branching. Section 5 of the bill would bar a foreign bank, operating a branch in the United States, from establishing a second branch in another state until national banks are authorized to establish branches across state lines. Interstate activities in existence on May 1, 1976, could be permanently continued under a grandfather clause.

Comment. Those who support this section of the bill argue that foreign banks have a great advantage over U.S. banks because of their ability to branch across state lines. In fact, foreign banks appear to enjoy no meaningful competitive advantage vis-a-vis U.S. banks with respect to multi-state activity.

U.S. banks have developed extensive multi-state systems of financial intermediaries and loan production offices which conduct a wide range of banking activities excluding, for the most part, the taking of deposits. These domestic banks have the ability to conduct banking activity in more than one state by way of the following forms:

(1) loan production offices and operating subsidiaries;

(2) interstate non-banking activities of bank holding companies permitted under section 4(c)(8) of the Bank Holding Company Act (Federal Reserve figures indicate 662 of the applications filed for such interstate activities were approved between 1971 and 1974);

(3) Edge Corporation offices (thirty-two banks have some seventy-seven out-of-state Edge Corporation offices involved in international banking activity); and

(4) grandfathered multi-state banking (as of year end 1974, eight U.S. bank holding companies held banks in more than one state under the Douglas Amendment to the Bank Holding Company Act of 1956).

A recent series of articles in the American Banker discussed the extent of this multi-state activity. The articles indicated that 12 bank holding companies, located in 7 states, had a total of approximately 1400 offices engaged in banking-related activities and located in states other than that of the anchor bank of the holding company. In addition, the same 12 holding companies conduct operations across state lines through 34 Edge Act Corporations and 23 loan production offices. BankAmerica Corp., for example, has 336 non-bank offices in 32 states while Citicorp. has 284 non-bank offices in 34 states.

Foreign banking organizations, on the other hand, have established rather limited banking activities across state lines. For one thing, any foreign bank which has established a full service bank in the United States, is subject to all of the restraints on interstate banking which the Bank Holding Act imposes on domestic banks.

At the same time, however, it is argued that foreign banks enjoy an advantage in retail banking since foreign banks have established deposit-taking *branches* in five states (New York, Illinois, Washington, Oregon, and Massachusetts), while United States banks may not branch across state lines. It is this fact which is the basis for the claim that foreign banks have an advantage over domestic banks with respect to interstate activities. Relatively few foreign banks, however, have established branches in more than one state.[2] Moreover, the basis for such multi-state activity as now exists is a positive authorization in the law of the receiving state and such an avenue is legally available as a basis for interstate banking by domestic banks.

Specifically, the opportunity for full service banking across state lines is presently available to domestic banks by way of section 3(d) of the Bank Holding Company Act. Section 3(d) permits acquisition or establishment of full service commercial banks by bank holding companies if state law contains positive language to that effect. And this opportunity to conduct full service banking across state lines is available equally to foreign or domestic bank holding companies. States have simply chosen to extend reciprocal branching privileges to foreign countries but not to sister states.[3]

In summary, then, the interstate activity of foreign banks is limited, and it is conducted on the basis of invitations extended by individual states. The states may, if they choose, extend similar invitations to domestic bank holding companies.

The Banking Department believes that this existing legal framework, which is a key feature of the Bank Holding Company Act, within which banking may be conducted across state lines is consistent with the principles of foreign bank regulation set forth at the beginning of this statement, and the Department, therefore, supports its continuation.

Impact on New York State. The New York State Banking Department supports the continuation of the existing authority for interstate banking despite the fact that the International Banking Act's ban on interstate branching by foreign banks might, in a limited way, benefit New York. Although existing interstate banking activities would be grandfathered, with respect to the establishment of future branches under the Act each foreign bank would have to choose one state as its home state. Only within that one state could the foreign bank establish and operate a branch or subsidiary. By requiring the selection of one state as home state, the Act might appear to insure preservation of New York's pre-eminent position in foreign banking in the U.S.

Further examination suggests, however, that the Act is of dubious benefit to New York. In the first place, most of the largest foreign banks at present carry on banking activity in New York. The Act would permit these banks to continue, permanently, whatever interstate activity they now have. Thus, the Act would have no effect, positive or negative, on existing activities in New York. Foreign banks with branches presently in New York would be barred from establishing branches in other states; this would probably be of marginal benefit to New York to the extent, perhaps, of increasing the activity of New York facilities, but it would be a significant disservice to other states which want greater foreign banking.

[2] According to data prepared by the Federal Reserve Board, a total of 15 banks had established branches in more than one State as of September 1975.

[3] With the exception of Maine and Iowa. New York State authorities on several occasions, including this year, introduced legislation which would allow reciprocal interstate banking.

There are, however, a substantial number of foreign banks still interested in establishing for the first time banking operations in the U.S. The chances are that most of these foreign banks will choose to establish their principal banking offices in the nation's money market center, namely, New York. But they will make that choice quite apart from the International Banking Act's requirement that they choose a home state. They will choose New York because of the realities of finance and trade which have established New York as a world center. The Act's requirement of choosing a home state as location for a branch will simply serve as a bar to the foreign banks in establishing branches in other states.

Finally, the Act's requirement of choosing a home state for branching may have a negative impact upon New York with respect to the Asian banks—especially the Japanese. Forced to choose a single home state, it is this group of Asian banks which may well choose a state other than New York: namely, California, and thereby be precluded from establishing a branch or subsidiary in New York. For example, there are now 10 foreign banks with only an agency or commercial lending company in New York which have a branch or subsidiary in another state (in most cases, a subsidiary in California). These banks would be barred by this bill from establishing a branch or subsidiary in New York.

In summary, then, the Banking Department does not see the Act's limitations on interstate banking as being of any meaningful benefit to New York, while it would be of substantial disservice to other states.

Furthermore, the Department believes that the regulation of foreign banking in the U.S. should function with the goal of encouraging the foreign banking presence to sustain and invigorate the *various* American centers of international trade and finance in order to facilitate thereby the flow of capital through the U.S. capital markets and the movement of trade into and out of the U.S. Section 5 of this bill, by barring interstate branching, would not further this goal and the Banking Department, therefore, urges that the Act be amended to permit a foreign bank to establish a branch, agency or commercial lending company outside of its home state where this is permitted by the bank regulatory authority or the law of the state in which the branch, agency or commercial lending company is to be located.

Nonbanking activities (*section 8*). Subsection (a) of this section applies, with the exceptions and qualifications noted below, the restrictions of the Bank Holding Company Act of 1956 to the nonbanking operations in the United States of foreign banks which control branches, agencies, or commercial lending companies in the United States.

Subsection (b) of this section applies to shares and activities acquired or commenced after December 3, 1974, and prior to the date of enactment of the bill. It requires that any foreign bank or other company to which subsection (a) applies must divest itself of, or terminate, such shares or activities not later than December 31, 1985, unless they are permissible under the general provisions of section 4 of the Bank Holding Company Act of 1956.

Subsection (c) applies to those nonbanking shares and activities which were acquired or commended prior to December 4, 1974. Except as noted below with respect to the securities business, such shares and activities are indefinitely grandfathered, subject to the power of the Federal Reserve Board to terminate the authority to hold such shares or carry on such activities.

With respect to the securities businesses of foreign banks and their subsidiaries, section 8(c) of the bill allows them to carry on activities permissible for national banks under paragraph "seventh" of section 5136 of the Revised Statutes (12 U.S.C. 24).

Subsection (c) goes on to permit the grandfathered companies to—continue to engage in the U.S. in the business of underwriting and distributing securities to the extent necessary to participate in customary and usual syndicate activities in the U.S. by the managing underwriters or other underwriters on behalf of all syndicate members in connection with underwritings of such securities so long as the individual selling and distribution activities of any such foreign bank or company (whether direct or indirect through an affiliate) in connection with any such underwriting are confined to jurisdictions other than the U.S.

Comment. The principal issue raised by section 8 is the involvement by bank affiliates in securities activities. The problem of the securities affiliates is limited to foreign bank branches. The affiliates of foreign-owned banks are covered, at present, by the Bank Holding Company restraints. While agencies and commercial lending companies may be affiliated with securities firms, since they do not take

deposits, they are not true banks and should continue to be outside of the coverage of Glass-Steagall. Thus, the Banking Department would urge support of an amendment which would strike the references in section 8 to agencies or commercial lending companies.

More broadly, however, since late 1975 the Senate Subcommittee on Securities has been conducting a study, including public hearings, on the restrictions on bank activity imposed by the Glass-Steagall Act. It would seem appropriate that no action be taken with respect to this issue until this study has been completed and there are thoughtful conclusions on which the Congress can rely. If and when Glass-Steagall is modified, the modified statute should apply equally to foreign and domestic banking organizations. (The bill seems to contemplate this equality of treatment by providing that foreign bank affiliates can engage in those securities activities permitted to national banks. The Banking Department agrees with this approach in principle.)

Federal branches and agencies. Section 4 provides that the Comptroller is authorized to approve the establishment of a federal branch or agency by a foreign bank in a state where it is not already operating a branch or agency under state law and where state law does not prohibit the establishment of a foreign branch or agency.

Comment. At present a domestic bank can conduct banking activities through a subsidiary chartered by state banking authorities and through a subsidiary chartered by federal authorities. Equality of treatment requires that foreign banks have the same option. The prohibition on the Comptroller's approval of a federal branch or agency in any state where the foreign bank is already operating a state-licensed branch or agency should be stricken in section 4.

At present the Comptroller can approve the establishment of a national bank in any state without reference to state law. The Comptroller should have the same authority with respect to the establishment of federal branches or agencies.

The Banking Department urges support for an amendment which would change section 4 in conformity with these two points.

Appendix A

[From American Banker, July 13, 1976]

German Banks Attack Equal Treatment Bill

Cologne.—The West German Banking Federation strongly criticized Monday a United States bill to restrict American activities of foreign banks and predicted that passage of the measure would provoke demands for retaliation in Europe.

The federation charged that the proposed International Banking Act of 1976. sponsored by Rep. Henry S. Reuss, D., Wis., and two colleagues discriminates against foreign banks under the pretext of creating equal conditions for domestic and foreign institutions. Mr. Reuss is chairman of the House Banking, Currency and Housing Committee.

The bill would impose on foreign banks operating in the U.S. limitations similar to those under which domestic-owned banks function.

The group, representing about 300 credit institutions in the nonpublic sector, said that major German banks have made sizable investments in recent years in order to establish U.S. subsidiaries and to take shares in U.S.-based consortiums. Some banks might find it unprofitable to continue these activities if the new law were passed, the federation said.

"In any case," it added, "the principle of reciprocity of free banking activity would be damaged in such a degree that retaliation measures could be expected to be demanded by the European credit industry. . . . This in turn could hurt the efficiency of the international money and capital markets."

The federation said that under the bill German banks would:

Have to halt their U.S. securities business, with the exception of underwriting, by 1985. In practice, such business would dry up long before the end of the grace period.

Would be subject to the Bank Holding Company Act that would prevent a German bank from opening a U.S. subsidiary while simultaneously holding a share in U.S. industry or business.

Be prevented from opening branches in several states.

Have to participate in American deposit insurance even though they normally do not have nonbank depositors.

The federation pointed out that American banks are allowed to operate universal institutions without restriction in every German city. These banks, like their

German counterparts, may engage in securities business, take shares in German industry and solicit deposits from the public. The principle of reciprocity demands the same privileges for German banks operating in the U.S., a federation spokesman contended.

The spokesman took note of arguments that, as a matter of equal treatment, German and other foreign banks would have to conform to U.S. rules, including a ban on multistate subsidiaries, the Bank Holding Company Act and the separation of commercial and investment banking.

He noted the German banks' American subsidiaries compete in the U.S. only with the big international American banks. The major international American banks—the ones most affected by the presence in the U.S. of foreign-owned banks—do not support the Reuss bill.

He said that the bill is supported by smaller banks, which fear competition. But German banks, at least do not attempt to compete for the type of business that supports smaller banks, he said.

Senator McIntyre. Thank you.

STATEMENT OF CAROL GREENWALD, COMMISSIONER OF BANKS, COMMONWEALTH OF MASSACHUSETTS

Ms. Greenwald. Thank you, Senator, for this opportunity to present Massachusetts' concern about two sections of the proposed International Banking Act of 1976.

Sections 5(a) and 7(e) would impede Massachusetts' efforts to help a depressed economy and impede our efforts to develop Boston. Section 5(a) would prohibit interstate banking activities of foreign banks and would make the true functioning of international rapport very difficult.

I have attached to my testimony letters from the secretary-treasurer of the Greater Boston Council of the AFL–CIO and from the executive director of Massport, both of whom agree with this position. As part of the economic development plans for New England, and most specifically for Massachusetts, a top priority has been to redevelop and expand the port of Boston. To have a seaport that's going to be a factor in international trade and finance means that you must have at least the opportunity for foreign banks to operate there. So this provision of the act would make foreign branches illegal in Massachusetts would certainly impede our efforts to develop one of the few areas in which we might have a comparative advantage. I would ask the Congress not to deny New England this possible avenue of development and to enshrine the hegemony of New York in international finance.

The second section of the bill which would hurt the economic development of Massachusetts in exactly the same way is section 7, specifically section 7(e) which is the only part I'd like to object to. Section 7 deals with giving Federal Reserve substantial regulatory authority over state chartered foreign banks. There hasn't been any evidence that the States have failed to regulate these banks appropriately and, therefore, there has not been shown that there's a tremendous need for federal authority here. It seems to me the one provision that is really very detrimental for the economy of Massachusetts is to give the Fed veto authority over approval of the new branch being established and that's section 7(e).

We would have no problem with your suggestion, Senator, that there would be some consultation over establishing a branch, but this is prior approval which would be a veto power for the Fed. In 5(a) and

7(e) you have done the same thing; you have taken away the ability of the state to attract foreign banking if it feels that's helpful or necessary for its economic development.

This is a live concern in Massachusetts. Just on Friday, as chairperson of the board of banks of Massachusetts, I sat on a bank application for a foreign branch from the National Bank of Greece which the board is very likely to approve, except that under section 5(a) the application is illegal and under section 7(e) the board of governors could have vetoed it before we would have seen it.

This is, I want to emphasize, a live issue in Massachusetts. We are very interested in developing the port of Boston and I think you could easily see how this would hurt us in development of a regional port of international significance.

Senator McINTYRE. Let me interrupt to ask you, if we should eliminate section 7(e), are you prepared to live with the rest of section 7?

Ms. GREENWALD. Yes, I am. I have no personal—I did not come here today to object strongly to the Federal Reserve setting reserve requirements of foreign banks. That's not a problem to me. It's simply this prior approval, the veto power, which is objectionable. Thank you.

Senator McINTYRE. Thank you. Please try to make your answers as succinct and brief as possible. I will ask questions and then I will yield to Senator Stevenson in about 10 minutes.

The Federal Reserve—and you will answer in the order that you testified—suggests that section 5 of this bill be deleted in favor of section 3(g) of S. 958, its original bill; that a foreign bank would be able to establish a branch or agency outside of its home State only if a State bank organized under law of its home State would be able to do so. Would you comment?

Mr. OLIN. Well, I think that's the amendment you have given me here. It goes a little beyond that because it does tie it down as I understand it to national banks crossing State lines, and depending on the State and where this might occur we have problems. We certainly have problems on the west coast in Oregon, Washington and California. The States of New York and California have talked of this sort of a concept, but we think that the section 5 should be amended as suggested by Representative Stephens.

Senator McINTYRE. The Federal Reserve has suggested language for a rewrite of section 5(a) of the bill and I would appreciate it if you would study this language and respond as quickly as possible for the record. That would be 7 days. You only have 7 days after the closing of today's testimony to have your answers in.

The Federal Reserve has suggested language for a rewrite on section 5(a).

Mr. OLIN. We will get that to you right away.

Senator McINTYRE. Do you wish to comment, Mr. Volckhausen?

Mr. VOLCKHAUSEN. I would say, Senator, that we believe that the appropriate principle on which interstate branching should rest is the principle which underlies the present section 3(d) of the Bank Holding Company Act. That is, that the States should have the capacity to determine that banks headquartered in other States or in other countries can carry on banking activities within their borders.

Ms. GREENWALD. I think that the whole section 5(a) seems to rest on a misunderstanding of how domestic banking is actually carried out in the United States. I'm opposed to this amendment, but actually as the *American Banker* article put it—as we heard in the testimony this morning about Houston, there are already 25 American banks from outside of Texas operating Edge Act operations in Houston. The prohibition on interstate banking of domestic banks has not in the slightest prohibited our large bank holding companies, domestic bank holding companies, from operating nationally in every State in which they have interest in operating. So that the idea that somehow competitive advantage has been given to foreign banks just flies in the face of the reality. As the *American Banker* observed, there are 1,400 out-of-state banking offices of 12 American bank holding companies.

The foreign banks are here to do wholesale business and do exactly what our banks are doing in opening commercial lending operations and Edge Act operations in every State in the Union. It seems to me there's really a misunderstanding in this section about how banking is carried out in this country. I find this amendment unacceptable and the pretext of treating them both the same is not true.

[The following was received for the record:]

THE COMMONWEALTH OF MASSACHUSETTS,
OFFICE OF THE COMMISSIONER OF BANKS,
Boston, Mass., September 2, 1976.

Hon. THOMAS J. MCINTYRE,
Chairman of the Subcommittee on Financial Institutions, Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR MCINTYRE: The Federal Reserve's proposed section 5(a) of H.R. 13876 does not meet the needs of Massachusetts because it limits the ability of a state to invite a foreign bank into its borders unless it is also willing to invite other out-of-state banks. There is no need for one constructive action by a state to be contingent upon other actions. A state may well want to invite a foreign bank whose main thrust of business will be in promoting international trade and be unwilling to invite a bank whose orientation is essentially domestic.

We urge the Committee simply to amend Section 5(a) to provde that a foreign bank may establish or operate a branch, agency, or commercial lending company in a state outside its home state where this is expressly permitted by the law of the state in which the branch, agency or commercial lending company is to be located.

Sincerely,

CAROL S. GREENWALD,
Commissioner of Banks.

Senator MCINTYRE. I was a little bit surprised by the answer of Secretary Dixon about Houston because I thought that the impact would be to limit it. That was the question of what would be the impact of this legislation on the abilities of cities such as Houston to become international financial centers. It was my understanding that foreign banks can branch into Houston but domestic banks cannot. Is that right?

Ms. GREENWALD. Domestic banks open Edge Act operations and they have their operations there.

Mr. VOLCKHAUSEN. I think it's true at this point that the State of Texas does not permit the branching of foreign bank organizations into Texas.

Ms. GREENWALD. Senator, I think the answer you got from the Secretary would be easier if you had asked him about the effect it would have on Boston.

Senator McINTYRE. Well, we made that question. If we deleted section 7(e) could you live with the rest of section 7?

Mr. OLIN. There are three portions of section 7, we would like to see deleted—the oversight question, the reserve question and the veto question.

Senator McINTYRE. Then you couldn't live with it?

Mr. OLIN. Right.

Mr. VOLCKHAUSEN. With respect to the imposition of the reserve requirements of the Federal Reserve, that is a provision with which the New York banking department could live. We are troubled by the provisions of sections 7(b), (c) and (d) which in rather sweeping language permit the Fed to treat foreign banking entities branches, agencies or commercial lending companies, as if they are member banks. That's too open ended, and we would like to see it amended.

Mr. OLIN. Those three sections, if adopted in its entirety, could in the long pull I think invite federalism of foreign banks. That's why we object to them principally.

Senator McINTYRE. Mr. Olin, would you please comment on the suggestion made by both the Treasury and the Federal Reserve to permanently grandfather the existing securities affiliates of foreign banks uner section 8?

Mr. OLIN. I think that's an area that I'm not prepared to comment on in full until after the Senate has done their study on the Glass-Steagal question. It seems to me they all go hand-in-hand and we ought to go into more depth of what the effect of that would be.

Senator McINTYRE. What do you think about that, Mr. Volckhausen?

Mr. VOLCKHAUSEN. I'm fully in accord with that position.

Senator McINTYRE. Ms. Greenwald?

Ms. GREENWALD. That would be agreeable to me.

Senator McINTYRE. Mr. Olin, Mr. Lapidus is not here but his testimony is and he maintains, and I quote:

> At present the Comptroller can approve the establishment of a national bank in any State withous reference to State law. The Comptroller should have the same authority with respect to the establishment of federal branches or agencies.

Now this seems to be a direct contradiction to your statement.

Mr. OLIN. Our statement represents the consensus view of the State bank supervisors. That view holds that the States should be able to determine the banking structure within their borders. When we talk about international banks coming into a State with their different origins and interests, and whether they are wholesale or retail in nature, I think the State should be the one that determines whether they should be admitted and the nature of their activities should they be admitted.

Senator McINTYRE. The Treasury Department points out that domestic State chartered banks all operate under the aegis of some Federal regulation, whether by the Federal Reserve or the FDIC. Therefore, isn't there justification for imposing some Federal regulation over foreign banks, for example, as proposed here?

Mr. OLIN. Well, what they are talking about there in their view is symmetry for symmetry's sake and I don't buy that argument at all. We don't have Federal oversight for national banks being approved or State banks being approved or anything else. We certainly concur with the concept that there should be a national charter for a foreign bank, but we don't agree that the Federal Reserve ought to be the one that has the oversight of the whole matter.

Ms. GREENWALD. May I also point out it's not exactly accurate to say that every bank operates under some Federal supervision. Massachusetts has 147 savings banks representing $18 billion in assets that do not have Federal supervision of any kind.

Mr. VOLCKHAUSEN. I would also point out, Senator, that in New York while the foreign banking entities there are not subject to Federal control, they do already submit fairly extensive monthly reports to the Federal Reserve Bank of New York. So there is now Federal awareness of the nature and scope of their activities in New York.

Senator MCINTYRE. Treasury suggests section 9 be stricken from the bill. Do you have any views on this, Mr. Olin, to strike section 9?

Mr. OLIN. The guidelines. This isn't a provision that we have had any particular problem with since particularly in California and New York there is a form of consultation with the various Federal departments, and so I think the conference doesn't have any problem with that section.

Mr. VOLCKHAUSEN. I can just confirm, Senator, that whenever a foreign bank makes an application to establish a presence in New York, we automatically consult with both the State department and the Federal bank regulatory authorities to see if there are any problems.

Ms. GREENWALD. We have no problems.

Senator MCINTYRE. Now this question I'm going to ask you to answer for the record, or if you want to make brief remarks here, fine. If you'd like to expand for the record we would appreciate it.

We've had some comment on the so-called Stephens and the so-called Rees-Murphy amendments which were offered and rejected at the time this bill was passed in the House. Would you like to respond to that for the record?

Mr. OLIN. I would like to submit a written statement. Of course, we have in the past testified on the other bill, but basically it was those three sections in section 7 on Federal oversight and the interstate reciprocity sort of thing on national banks. Our position hasn't changed from that, but we will reaffirm that in writing.

On the Rees amendment, I think that any proposal in this area should rest heavily on the study that the Senate Securities Subcommittee is making regarding the Glass-Steagal Act, but we would be happy to put that in writing, too.

Mr. VOLCKHAUSEN. With respect to the Stephens amendment on sections 5 and 7, we will submit something for the record. As far as the Rees-Murphy amendment goes, there is some ambiguity in the language of that as to exactly what it meant, and we will submit a further statement on that.

[The following was reviewed for the record:]

STATE OF NEW YORK
BANKING DEPARTMENT
TWO WORLD TRADE CENTER
NEW YORK, N.Y. 10047

JOHN G. HEIMANN
SUPERINTENDENT

September 3, 1976

Hon. Thomas James McIntyre
Dirksen Senate Office Building
Room 5300
Washington, D. C. 20510

Re: <u>International Banking Act of 1976</u>

Dear Senator McIntyre:

At the hearing on August 31 on the International Banking Act of 1976 you requested the views of the New York State Banking Department on the amendments submitted by Congressmen Stephens and Rees. The Department had prepared a statement of its position on the Act and these subject amendments. We submit to you a copy of that position paper. The specific comments on the subject amendments begin on page 3 and, in all cases, are underlined.

You also asked for our comment on the Federal Reserve proposal for an amendment to section 5(a) of the Act. We would oppose this amendment for the reasons set forth on pages 4 - 7 of the written testimony submitted to the subcommittee on August 31. In summary, the Banking Department believes that the principle of section 3(d) of the Bank Holding Company Act should govern the entry of foreign banking organizations into the U.S., namely: each state is free to authorize the entry of either domestic or foreign banking organizations.

We appreciate the opportunity afforded by the August 31 hearing and by this letter to comment on the International Banking Act of 1976.

Sincerely yours,

William Volckhausen

William Volckhausen
Special Counsel to the
Superintendent of Banks

WV/sl
enclosure

NEW YORK STATE BANKING DEPARTMENT
STATEMENT OF POSITION

International Banking Act of 1976
(H.R. 13876)

The International Banking Act of 1976 would effect substantial changes in the establishment and operation of foreign banking in the U.S. by:

1) significantly expanding the role of the Federal Reserve Board in the regulation of foreign banking;

2) eliminating interstate branching by foreign banks; and

3) limiting the nonbanking activities in which foreign banks may engage.

Since New York State is the leading center of foreign banking activity in the U.S., this proposed legislation is, of necessity, of great interest to the State. Through more than 100 years of supervision of foreign bank activity, the New York State Banking Department has gained in depth understanding of the requirements of effective regulation of this foreign bank presence. Drawing upon this extensive experience, the Banking Department wishes to comment on the International Banking Act of 1976.

Summary of New York State Banking Department position. The views of the Banking Department on the Act may be summarized as follows:

1) The Act would impose upon foreign banking organizations reserves and other requirements of membership in the Federal Reserve System, prohibitions on interstate branching, and the Bank Holding Company Act restraints on nonbanking activities. In so doing the Act may invite retaliation by other countries against the activities of American banks abroad.* These activities involve three times the total assets of foreign banks in the U.S.

2) The Act increases the authority of the Federal Reserve Board over foreign banking in the U.S. to the point of substantially preempting State authority. This is contrary to the duality of powers with respect to domestic banks and would establish an unfortunate precedent.

3) By eliminating interstate branching and requiring foreign banks to choose a "home" state, the Act would seem, at first glance, to be beneficial to New York in that it would encourage foreign banks seeking entry to set up their single

*See Appendix A

branch in New York. Further reflection on this point, however, suggests that the Act's benefit to New York is probably marginal since New York is the money market center of the U.S. and the world, and most foreign banks interested in expansion in the United States would seek a New York presence. In other words, foreign banks will most likely choose to center their American banking activity in New York for reasons having little to do with anything written into the International Banking Act of 1976. The primary impact of the Act in this regard would be to deny to states other than New York and perhaps, California, the presence of foreign banks.

Principles of regulation of foreign banks. The New York State Banking Department believes that the regulation of foreign banking should be consistent with certain principles:

1) It should be a central purpose of any system of regulation of foreign banking to sustain and invigorate the American centers of international trade and finance so as to facilitate thereby the flow of capital through the U.S. capital markets and the movement of trade into and out of the U.S.

2) The structure of regulation which is established should seek, for foreign banks, to provide the same opportunities and to impose the same limitations as presently exist for domestic banks. The goal should be equality of options and equality of treatment once an option has been selected.

3) It is a fundamental tenet of the American dual banking system that supervisory authority is decentralized so that bank entry and conditions of bank operation are determined in response to locally perceived needs. The demands of New York and Chicago money market centers are vastly different from those of suburban counties or rural sectors. While the resultant system of mixed federal and state regulation is complex, it has worked well with respect to supervision of foreign bank activity in the U.S. There has been no evidence brought forward that this system has impeded the attainment of national policy objectives.

Building upon the foundation of these principles, the Banking Department would make the following comments upon the proposed International Banking Act of 1976. While not dealing with all subjects covered by the bill, this statement touches on those issues of greatest concern to the Department.

Federal Reserve Board authority (section 7). The bill would expand greatly the authority of the Federal Reserve Board to regulate foreign banking. Specifically, section 7(a) would authorize the Federal Reserve Board to make the branches, agencies, and commercial lending companies controlled by foreign banks subject to reserve requirements and interest rate controls imposed on Federal Reserve member banks. Foreign bank offices will not be subject to reserve requirements if the worldwide banking assets of the parent do not exceed $1 billion.

Section 7 would also authorize the Federal Reserve Board to impose reporting and examination requirements and further regulations and restraints upon State-licensed branches, agencies, and commercial lending companies of foreign banks as if these offices were member banks of the Federal Reserve System.

Finally, section 7(e) provides that the establishment of any branch, agency or commercial lending company pursuant to state law must be approved by the Federal Reserve Board.

Comment. At present U.S. banks are free to seek charters from State banking authorities to engage in a full scale banking business without seeking approval from federal regulatory authorities, provided they choose not to become Fed members or to operate as bank holding companies. Equality of treatment requires that the same option be open to foreign banks, i.e., with the approval of State banking authorities, they should be able to establish a banking operation without being subject to a veto by the Federal Reserve Board. Furthermore, no showing has been made that State approval of foreign bank activity in the U.S. has in any way run counter to the U.S. national interest. New York State authorities have consulted regularly with Federal bank regulators and the State Department with respect to foreign bank entry.

Representative Robert G. Stephens (D. Ga.) plans to introduce certain amendments when the International Banking Act of 1976 reaches the floor of the House. One amendment would strike from the Bill section 7(e). The New York State Banking Department supports this amendment.

The agencies and commercial lending companies of foreign banks are barred from accepting deposits. Therefore, they do not function as banks. As a result, the Federal Reserve Board should not be authorized to impose upon them reserve requirements and other regulations and restraints as if they were member banks. The Banking Department suggests that the terms "agency" and "commercial lending company" be deleted entirely from section 7.

With respect to branches of foreign banks, it may be argued that since U.S. banks do not have to become Fed members, it is discriminatory to foreign banks to subject them to required reserves equivalent to those imposed on member banks. On the

other hand, it is true that virtually all U.S. banks with over $1 billion in assets are, in fact, members of the Federal Reserve System. Thus, to subject the branches of foreign banks with world-wide assets of over $1 billion to the Fed's reserve requirements is not inequitable--if equity is judged by the present reality of domestic bank operation. The imposition of reserve requirements for foreign branches is also supported by the comments set forth in the third paragraph of page 3 of the Committee on Banking, Currency, and Housing report of May 26, 1976 (No. 94-1193).

Apart from the imposition of reserves, however, the Fed should not be permitted virtually to preempt the regulation of state-licensed foreign branches by being granted authority to conduct examinations and to impose additional regulations as if these entities were member banks. The Banking Department supports Representative Stephens' amendment which would eliminate this grant of authority to the Fed while requiring state-licensed branches to file reports of condition with the Fed.

Interstate branching. Section 5 of the bill would bar a foreign bank, operating a branch in the U.S., from establishing a second branch in another state until national banks are authorized to establish branches across state lines. Interstate activities in existence on May 1, 1976, could be permanently continued under a grandfather clause.

Comment. Those who support this section of the bill argue that foreign banks have a great advantage over U.S. banks because of their ability to branch across state lines. In fact, foreign banks appear to enjoy no meaningful competitive advantage vis-a-vis U.S. banks with respect to multi-state activity.

U.S. banks have developed extensive multi-state systems of financial intermediaries and loan production offices which conduct a wide range of banking activities excluding, for the most part, the taking of deposits. These domestic banks have the ability to conduct banking activity in more than one state by way of the following forms:

1) loan production offices and operating subsidiaries;

2) interstate non-banking activities of bank holding companies permitted under section 4(c)(8) of the Bank Holding Company Act (Federal Reserve figures indicate 662 of the applications filed for such interstate activities were approved between 1971 and 1974);

3) Edge Corporation offices (thirty-two banks have some seventy-seven out-of-state Edge Corporation offices involved in international banking activity); and

4) grandfathered multi-state banking, (as of year end 1974, eight U.S. bank holding companies held banks in more than one state under the Douglas Amendment to the Bank Holding Company Act of 1956).

A recent series of articles in the American Banker discussed the extent of this multi-state activity. The articles indicated that 12 bank holding companies located in 7 states, had a total of approximately 1400 offices engaged in banking-related activities and located in states other than that of the anchor bank of the holding company. In addition, the same 12 holding companies conduct operations across state lines through 34 Edge Act Corporations and 23 loan production offices. BankAmerica Corp., for example, has 336 non-bank offices in 32 states while Citicorp. has 284 non-bank offices in 34 states.

Foreign banking organizations, on the other hand, have established rather limited banking activities across state lines. For one thing any foreign bank which has established a full service bank in the U.S. is subject to all of the restraints on interstate banking which the Bank Holding Act imposes on domestic banks.

At the same time, however, it is argued that foreign banks enjoy an advantage in retail banking since foreign banks have established deposit-taking branches in five states New York Illinois, Washington, Oregon, and Massachusetts), while United States banks may not branch across state lines. It is this fact which is the basis for the claim that foreign banks have an advantage over domestic banks with respect to interstate activities Relatively few foreign banks however have established branches in more than one state.* Moreover the basis for such multi-state activity as now exists is a positive authorization in the law of the receiving state and such an avenue is legally available as a basis for interstate banking by domestic banks.

Specifically, the opportunity for full service banking across state lines is presently available to domestic banks by way of section 3(d) of the Bank Holding Company Act. Section 3(d) permits acquisition or establishment of full service commercial banks by bank holding companies if state law contains positive language to that effect. And this opportunity to conduct full service banking across state lines is available equally to foreign or domestic bank holding companies States have simply chosen to extend reciprocal branching privileges to foreign countries but not to sister states.**

In summary, then, the interstate activity of foreign banks is limited, and it is conducted on the basis of invitations extended by individual states. The states may, if they choose, extend similar invitations to domestic bank holding companies.

The Banking Department believes that this existing legal framework, which is a key feature of the Bank Holding Company Act, within which banking may be conducted across state lines is consistent

*According to data prepared by the Federal Reserve Board, a total of 15 banks had established branches in more than one state as of September 1975.

**New York State authorities on several occasions, including this year, introduced legislation which would allow reciprocal interstate banking.

with the principles of foreign bank regulation set forth at the beginning of this statement, and the Department, therefore, supports its continuation.

Impact on New York State. The New York State Banking Department supports the continuation of the existing authority for interstate banking despite the fact that the International Banking Act's ban on interstate branching by foreign banks might, in a limited way, benefit New York. Although existing interstate banking activities would be grandfathered, with respect to the establishment of future branches under the Act each foreign bank would have to choose one state as its home state. Only within that one state could the foreign bank establish and operate a branch or subsidiary. By requiring the selection of one state as home state, the Act might appear to insure preservation of New York's preeminent position in foreign banking in the U.S.

Further examination suggests, however, that the Act is of but limited benefit to New York. In the first place, most of the largest foreign banks at present carry on banking activity in New York. The Act would permit these banks to continue, permanently, whatever interstate activity they now have. Thus, the Act would have no effect, positive or negative, on existing activities in New York. Foreign banks with branches presently in New York would be barred from establishing branches in other states; this would probably be of marginal benefit to New York to the extent, perhaps, of increasing the activity of New York facilities, but it would be a significant disservice to other states which want greater foreign banking.

There are, however, a substantial number of second level foreign banks interested in establishing for the first time banking operations in the U.S. The chances are that most of these foreign banks will choose to establish their principal banking offices in the nation's money market center, namely, New York. But they will make that choice quite apart from the International Banking Act's requirement that they choose a home state. They will choose New York because of the realities of finance and trade which have established New York as a world center. The Act's requirement of choosing a home state as location for a branch will simply serve as a bar to the foreign banks in establishing branches in other states.

Finally, the Act's requirement of choosing a home state for branching may have a negative impact upon New York with respect to the Asian banks--especially the Japanese. Forced to choose a single home state, it is this group of Asian banks which may well choose a state other than New York: namely, California, and thereby be precluded from establishing a branch or subsidiary in New York. For example, there are now 10 foreign banks with only an agency or commercial lending company in New York which have a branch or subsidiary in another state (in most cases, a subsidiary in California). These banks would be barred by this bill from establishing a branch or subsidiary in New York.

In summary, then, the Banking Department does not see the Act's limitations on interstate banking as being of substantial benefit to New York.

Furthermore, the Department believes that the regulation of foreign banking in the U.S. should function with the goal of encouraging the foreign banking presence to sustain and invigorate the various American centers of international trade and finance in order to facilitate thereby the flow of capital through the U.S. capital markets and the movement of trade into and out of the U.S. Section 5 of this bill, by barring interstate branching, would not further this goal and the Banking Department, therefore, urges support for the amendment to be introduced by Representative Robert G. Stephens of Georgia which would permit a foreign bank to establish a branch, agency or commercial lending company outside of its home state where this is permitted by the bank regulatory authority or the law of the state in which the branch, agency or commercial lending company is to be located.

Nonbanking activities (section 8). Subsection (a) of this section applies, with the exceptions and qualifications noted below, the restrictions of the Bank Holding Company Act of 1956 to the nonbanking operations in the United States of foreign banks which control branches, agencies, or commercial lending companies in the United States.

Subsection (b) of this section applies to shares and activities acquired or commenced after December 3, 1974, and prior to the date of enactment of the bill. It requires that any foreign bank or other company to which subsection (a) applies must divest itself of, or terminate, such shares or activities not later than December 31, 1985, unless they are permissible under the general provisions of section 4 of the Bank Holding Company Act of 1956.

Subsection (c) applies to those nonbanking shares and activities which were acquired or commenced prior to December 4, 1974. Except as noted below with respect to the securities business, such shares and activities are indefinitely grandfathered, subject to the power of the Federal Reserve Board to terminate the authority to hold such shares or carry on such activities.

With respect to the securities businesses of foreign banks and their subsidiaries, section 8(c) of the bill allows them to carry on activities permissible for national banks under paragraph "seventh" of section 5136 of the Revised Statutes (12 U.S.C. 24).

Subsection (c) goes on to permit the grandfathered companies to--

- continue to engage in the U.S. in the business of underwriting and distributing securities to the extent necessary to participate in customary and usual syndicate activities in the U.S. by the managing

> underwriters or other underwriters on behalf of all syndicate members in connection with underwritings of such securities so long as the individual selling and distribution activities of any such foreign bank or company (whether direct or indirect through an affiliate) in connection with any such underwriting are confined to jurisdictions other than the U.S.

Comment. The principal issue raised by section 8 is the involvement by bank affiliates in securities activities. The problem of the securities affiliates is limited to foreign bank branches. Subsidiaries are covered, at present, by the Bank Holding Company restraints. While agencies and commercial lending companies may be affiliated with securities firms, since they do not take deposits, they are not true banks and should continue to be outside of the coverage of Glass-Steagall. Thus, the Banking Department would urge support of an amendment which would strike the references in section 8 to agencies or commercial lending companies.

The Securities Subcommittees in both the Senate and the House plan extensive review of the restrictions on bank activity imposed by the Glass-Steagall Act. If and when Glass-Steagall is modified, the modified statute should apply equally to foreign and domestic banking organizations. The bill seems to contemplate this equality of treatment by providing that foreign bank affiliates can engage in those securities activities permitted to national banks. The Banking Department supports this approach.

Representative John M. Murphy (D., N.Y.) plans to introduce an amendment which would strike the language in section 8(c) which is applicable solely to securities activities. Because the Banking Department believes that the securities activities of foreign banks should be subject to no special regulations, i.e., rules different from those for domestic banks, and because the bill's definition of permitted securities activities is unclear, the Department would urge support of the Murphy amendment.

Anti-discrimination amendment. Representative James J. Blanchard (D., Mich.) plans to introduce an amendment which would subject all branches, agencies and commercial lending companies of foreign banks to all federal and state laws barring discrimination based on race, color, religion, sex or national origin in so far as such laws now apply to domestic banks. The Banking Department urges support for this amendment, though it would prefer an amendment which would make such discrimination illegal for all domestic and foreign banks. New York's anti-discrimination law is resulting in the diversion of business from the Port of New York and from banks domiciled in New York State.

Federal branches and agencies. Section 4 provides that the Comptroller is authorized to approve the establishment of a federal branch or agency by a foreign bank in a state where it is not already operating a branch or agency under state law and where state law does not prohibit the establishment of a foreign branch or agency.

Comment. At present a domestic bank can conduct banking activities through a subsidiary chartered by state banking authorities and through a subsidiary chartered by federal authorities. Equality of treatment requires that foreign banks have the same option. The prohibition on the Comptroller's approval of a federal branch or agency in any state where the foreign bank is already operating a state-licensed branch or agency should be stricken in section 4.

At present the Comptroller can approve the establishment of a national bank in any state without reference to state law. The Comptroller should have the same authority with respect to the establishment of federal branches or agencies.

The Banking Department urges support for an amendment which would change section 4 in conformity with these two points.

July 21, 1976

Ms. GREENWALD. Generally, I would support the Stephens amendment, although I would want to emphasize again there's only two provisions that I feel really vital to Massachusetts, and that's 5(a) and 7(e), although his amendments were broader than that, and I have no position on the Rees amendment.

Senator MCINTYRE. Senator Stevenson.

Senator STEVENSON. Thank you, Mr. Chairman.

I have one question only for each of the witnesses. If the interstate banking division sections of the bill were changed to permit interstate operation when authorized by State law and State regulation, what would their attitude be to the bill? Would you still oppose it?

Mr. OLIN. The position of the conference wouldn't be basically changed because of other provisions of the bill. When you say changed to permit interstate operation when authorized by State law may I point out that interstate branching for foreign bank branches is already permitted now by some States. It is a matter of continuing what is already in effect with foreign branches—they may branch into States that will permit it. The conference favors continuing this. It is opposed to the provisions in H.R. 13876 which would preempt State laws in this area. Based on this preemption of State law proposed in section 5, and the unwarranted extension of Federal authority in section 7 of the bill, we think the bill as written is a discriminatory bill and we think it ought to be tabled.

Mr. VOLCKHAUSEN. It is the position of New York State that the two most objectionable features of the bill are the limitations on interstate branching and the Federal veto power in section 7(e) of the bill. If those two are eliminated, the bill would be more acceptable from our point of view.

However, as I said earlier, we are still much troubled by the very substantial expansion of authority which is granted to the Federal Reserve Board in the other provisions of section 7 of the bill and we do feel that the imposition of the Bank Holding Company Act restraints on nonbanking activities, before the Senate Committee has completed the study, is premature and we feel inappropriate.

Ms. GREENWALD. If sections 5(a) and 7(e) were removed, then Massachusetts' concern would be eliminated.

Senator STEVENSON. Thank you.

[Complete statement of Ms. Greenwald and additional letters received for the record follow:]

TESTIMONY ON THE INTERNATIONAL BANK ACT OF 1976

(H.R. 13876)

PRESENTED BY

CAROL S. GREENWALD
COMMISSIONER OF BANKS
COMMONWEALTH OF MASSACHUSETTS

TO

UNITED STATES SENATE

THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

AUGUST 31, 1976

I am here to express Massachusetts' concern and to urge you to change certain features of the International Banking Act of 1976 (H.R. 13876) which would have the effect of limiting expansion of foreign banks in the nation, and in Massachusetts in particular. We urge that the bill be defeated in Committee, or at the very least, that sections 5(a) and 7(e) be deleted.

Sections 5(a) and 7(e) would have an adverse and discriminatory impact on states like Massachusetts where significant foreign banking operations do not presently exist. Massachusetts, where Boston clearly has the potential of further development as an international banking center, would be disadvantaged since these sections would frustrate or forestall new entry by foreign banks.

Section 5(a) would effectively prohibit new interstate banking operations. It's primary impact would be to deny to states other than New York and perhaps California the presence of foreign banks. There is no evidence that existing multistate branch operations of foreign banks have harmed domestic banking organizations or that the state authorities have failed to regulate foreign branches when such entry is deemed to be in the interests of their residents.

As part of efforts to revitalize the depressed Massachusetts economy, the Governor, the Mayor of Boston, business and labor leaders have all focused on developing the Port of Boston to facilitate the movement of trade into and out of the New England region. An integral part of a truly functioning international port is the ready availability of international finance and close contacts with foreign banking centers. This entails the presence of foreign banks. The House bill will clearly frustrate the revitalization of the Port of Boston.

It is imperative to Massachusetts that Section 5(a) be amended to provide that a foreign bank may establish or operate a branch, agency or commercial

lending company in a state outside its home state where this is expressly permitted by the law of the state in which the branch, agency or commercial lending company is to be located. A state should have the right to invite into its borders a foreign branch if it believes this is advantageous to the interests of its residents; and this constructive state action need not be contingent on federal action in regard to the interstate branching powers of domestic banks as proposed in Section 5(a) of the bill. As a result of this amendment, Massachusetts would be able to strengthen its international banking position to the benefit of its citizens, business, and financial community by permitting new entry by foreign banks.

Section 7 deals with the authority of the Federal Reserve System with regard to state-chartered foreign branches, agencies, and commercial lending companies. The Federal Reserve would gain significant reserve-setting authority and general regulatory authority over state-chartered foreign facilities under Sections 7(a) and 7(d), respectively. While I fail to see the need for these provisions--since the individual states have performed their regulatory role quite responsibly in the past--I do not find them terribly objectionable. It is not a major concern to Massachusetts whether the Federal Reserve sets reserve requirements for non-member foreign banks which accept deposits.

However, Section 7(e), which would effectively give the Federal Reserve a veto over any foreign facility proposed under state law, is extremely repugnant; a Federal Reserve veto would directly undermine state options in contravention of the most fundamental principles of the dual banking system, that a state should be free to charter a bank that will meet the economic needs of its citizens.

This is a live concern to Massachusetts which is actively seeking new business concerns. Just last Friday, the Massachusetts Board of Bank Incorporation heard a branch application from the National Bank of Greece. The proposed branch would be illegal, specifically under Section 5(a), and similar initiatives desired by the Commonwealth could be overruled by the Federal Reserve under Section 7(e). Abrogation of state authority would be one thing if any weakness in state regulation had been shown, but this is clearly not the case. The veto would limit state options with no offsetting benefit. I most emphatically urge elimination of Section 7(e) from the bill.

Massachusetts is one of several states which have the potential for becoming centers for international finance and trade. We ask the Congress not to frustrate these state aspirations and to thus enshrine the hegemony of New York City. Massachusetts and New England are depressed areas; and by passing this bill, you would be impeding one avenue of development open to us in which we may have a comparative advantage.

GREATER BOSTON LABOR COUNCIL, AFL-CIO

44 BROMFIELD STREET
BOSTON, MASS. 02108
Telephone 482-6483

August 25, 1976

Carol S. Greenwald, Commissioner
of Banks, Commonwealth of Massachusetts
Office of Commissioner of Banks
100 Cambridge Street
Boston, Massachusetts 02202

Dear Commissioner Greenwald:

The Greater Boston Labor Council, AFL CIO, representing 250,000 members of organized labor, is vitally concerned about proposed legislation contained in the International Banking Act of 1976.

Greater Boston has been an area where unemployment has plagued many of our members for many years due in part unfortunately of policies of the Federal Government, such as the closing of Government facilities, discriminatory freight rates, high cost of fuel for energy, etc.

It is trying to revive the Port of Boston once a source of major employment for many people. One of the ideas advanced was a free port - to accomplish this foreign banking facilities would be a major contributing factor.

To militate against establishing foreign bank branches would have a debilitating effect on this ambitious program.

We would hope that the Senate SubCommittee on Financial Institutions would take note of the impact of unfavorable legislation that would halt the improving of economic conditions in Greater Boston and New England.

Amendments to Section 5A, to allow foreign banks to establish and operate a branch is needed in Boston.

Section 7E as proposed would have chilling affect.

Boston needs all and any help it can get at present - particularly from the Federal Government!

Thank you for your considerations, I remain,

Sincerely yours,

Lawrence C. Sullivan
Executive Secretary-Treasurer

OPEIU-j
AFL CIO

massport

99 HIGH ST. BOSTON, MASSACHUSETTS 02110 (617) 482-2930 TELEX 94-0366

August 25, 1976

The Honorable Thomas J. McIntyre
United State Senator
Senate Office
Washington, D.C. 20515

Dear Senator McIntyre:

Several weeks ago you called to my attention your position on the Nighttime Curfew at the Logan International Airport. A few days following your remarks, I issued my own statement based on my staffs work which concurred with your belief that a Nighttime Curfew would have a detremental effect on the New England economy.

I wish to call to your attention an issue which I feel would have an even more serious economic impact to the region. The International Banking Act of 1976 (H.R. 1387) currently has several provisions in it which would negatively effect the regional economy. Specifically, sections 5A and 7E would have an adverse and discriminatory impact on states like New Hampshire and Massachusetts where significant foreign banking operations do not presently exist. This kind of protectionist policy gives a competitive advantage to those states where foreign banks already exist. For example, California has a great number of Japanese banks located there now and that situation greatly enhances California's trading position with the Japanese and other Asian trading partners. The current bill would stifle this Authority's efforts in developing increased trade and commerce with countries around the world.

While admittedly foreign banks will be more difficult to control than American banks and are not completely a part of America's great decentralized banking system, the disallowance of foreign banks doing business in Massachusetts will greatly weaken our ability to sell the Port of Boston. International banking facilities and the readibility of international finance is an integral part of a truly functioning international port.

Since April, the Boston Seaport has been consecutively breaking all historic records for containerized cargo coming into New England. We are presently in position to devote an enormous amount of operational and capital monies towards enhancing Seaport Development. This kind of development has broad ramifications for industry throughout New England. I am afraid that H.R. 1387 as currently written would stifle our ability to compete in the international market place for increased seaport commerce.

I would appreciate your giving consideration to this vital matter.

Very truly yours,

David W. Davis
Executive Director

DWD/byl

cc: Congressman O'Neill
Senator Kennedy
Senator Brooke
Carol Greenwald
Commissioner of Banks
Fred Salvucci, Secretary
of Transportation
Tom Moakley, Seaport Director
Bill Tobin, Marketing and Development

The Commonwealth of Massachusetts
Department of Commerce and Development
Leverett Saltonstall Building, 13th Floor
Government Center, Boston, Mass. 02202

JOHN J. MARINO
COMMISSIONER

(617) 727-3218

2 September 1976

The Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
5300 Dirksen Senate Office Building
Washington, D.C. 20515

Dear Senator McIntyre:

I respectfully urge your favorable consideration of the deletion or amendment of Sections 5(a) and 7(e) of the International Banking Act of 1976 (H.R. 13876).

It is our considered opinion that the above two subsections discriminate against states that do not have, but seek, foreign banking operations.

Boston, the Capital of the Commonwealth of Massachusetts and the Hub of the entire New England Region, is one of the major financial centers of the United States. It has the potential of becoming an international banking center and would provide the necessary service to the business community in the field of international trade.

This department is exerting its utmost efforts to revitalize the economy of Massachusetts. A great deal of attention is given to the Port of Boston, wherein the movement of goods to and from all parts of the world can be expedited more efficiently. The availability of foreign banking facilities in the immediate area will influence the growth of the Boston Port. We need all the tools necessary to promote the growth of the economy. Adequate and effective foreign banking service is such a tool.

Senator, it is my firm belief that every state should have the right to invite a foreign bank or its branch to join our banking community. All banks, domestic and foreign, are regulated by our State Banking Department. Foreign banks and branches should be under the supervision and control of the state within which they are located.

Senator Thomas J. McIntyre
Page Two 2 September 1976

They perform a function for the business community and the individuals of that state and such functions should be regulated by the state and not the federal government.

The deletion or amendment of Sections 5(a) and 7(e) of the International Banking Act of 1976 will in the future create a better financial position to our banking community within the Commonwealth of Massachusetts and the New England Region.

I trust and hope that the Subcommittee on Financial Institutions will give serious consideration to the above mentioned sections.

Sincerely,

s/m J J Marino

John J. Marino
Commissioner

Senator McINTYRE. Thank you all very much.

We will now have the panel consisting of Mr. Robert Ackerman, president, Pacific Coast Stock Exchange, San Francisco; Michael Tobin, president, Midwest Stock Exchange, Chicago; and James Dowd, president, Boston Stock Exchange; and together with those three we will have the panel of Theodor Schmidt-Scheuber, president, ABD Securities Corp., New York; and Hart Perry, president, So Gen-Swiss International Corp., New York.

It's my understanding from the staff that these witnesses are all mainly concerned with section 8, so if you all will come forward, and if you will testify as briefly and succinctly as possible to save time we would appreciate it.

If you have any assistants that are going to come to the table with you, you will have to introduce them for the record and we will provide chairs for them We are very happy to see Mr. Al Harris back with us again. We welcome you back to your old haunts.

Now will you please proceed, Mr. Ackerman.

STATEMENT OF G. ROBERT ACKERMAN, PRESIDENT, PACIFIC STOCK EXCHANGE, INC., ACCOMPANIED BY CHARLES E. RICKERSHAUSER, JR., COUNSEL TO THE EXCHANGE

Mr. ACKERMAN. Mr. Chairman, my name is G. Robert Ackerman and I am president of the Pacific Stock Exchange, Inc. I am accompanied by Charles E. Rickershauser, Jr., of Munger, Tolles & Rickershauser, counsel to the exchange, who may assist me in answering some of your questions.

The exchange welcomes this opportunity to present its views on the International Banking Act of 1976.

The Pacific Stock Exchange believes that the enactment of section 8 of the act is inappropriate at this time insofar as it restricts, or will restrict, the abilities of U.S. affiliates of foreign banks from engaging in the securities business in the United States.

Candidly, Mr. Chairman, our initial reaction to section 8 was to support it because unless domestic and foreign banks are treated the same, domestic banks might use the existence of securities activities by affiliates of foreign banks as an argument for legislative permission to expand their securities activities. On behalf of our members we believe that such expansion would damage the capital raising mechanism of the United States and therefore would not be in the public interest.

However, a closer analysis of the impact of section 8 has convinced us that the Pacific Stock Exchange should oppose the passage of section 8 at this time because it would impair the ability of the exchange to compete and consequently would be detrimental to the development of a viable national market system for listed securities in the United States. We believe that elimination of securities dealers affiliated with foreign banks would have the practical result of substantially impeding the development of meaningful competition in markets for United States listed securities while advancing the theoretical case for equality of treatment of foreign and domestic

banks. We think that the Senate is uniquely equipped to make a decision which prefers the practical result to the theoretical.

Basically, the Pacific, and the other regional stock exchanges, have never been able to provide direct, meaningful competition to the New York Stock Exchange in marketmaking to attract a flow of orders. Consequently the regional exchanges have competed in a variety of other ways, which have provided innovations that have benefited the public and the securities industry. These innovations have ranged from improved clearing methods and automatic execution systems to the admission of members with foreign affiliations. Many of these innovations have been, or are being, adopted by the New York Stock Exchange so that the regional exchanges are losing these competitive advantages.

At the same time, the regionals look forward to competing directly in market making in a national market system when such a system is developed under the impetus provided by the Securities Acts Amendments of 1975.

Unfortunately, our competitive position at the moment is difficult until that national market system is developed. The Pacific Exchange accounts for 4–5 percent of the total trading in listed securities in the United States. Significant reduction of this market share could affect our ability to survive. Members affiliated with foreign banks accounted for approximately 3 percent of our volume during the first 6 months of 1976. Loss of this volume could cause loss of other volume since loss of order flow tends to have a snowballing effect.

We recognize that section 8 contemplates that our members who are affiliated with foreign banks may continue in business until 1985. But we do not believe that this "grandfathering" provision is an adequate solution since the mere passage of such legislation—whatever its effective date may be—may influence our foreign-bank-affiliated members to decide to withdraw their memberships and direct their business elsewhere, either to the New York Stock Exchange or away from investments in U.S. securities. We believe that either result would be detrimental to our country and to our exchange.

We also believe that development of a national market system and resolution of the areas of permissible activity for domestic banks in the securities industry will provide the basis for a final decision in the area of securities activities for foreign bank affiliates.

The final solution may range from immediate outright prohibition to absence of any restrictions. However, we urge that the Senate wait to resolve this question until the more important developments occur and can be evaluated.

If there are any questions, we would be pleased to attempt to answer them.

STATEMENT OF MICHAEL E. TOBIN, PRESIDENT, MIDWEST STOCK EXCHANGE, INC., ACCOMPANIED BY ALTON B. HARRIS, COUNSEL

Mr. TOBIN. My name is Michael E. Tobin. I am president of the Midwest Stock Exchange, Inc.

I am accompanied today by Mr. Alton B. Harris, a member of the firm of Schiff, Hardin & Waite, our outside counsel.

We are pleased to have this opportunity to comment on H.R. 13876.

This bill is addressed to a large number of important and difficult questions.

Most of the provisions concern banking activities that do not affect Midwest or its members, and I will not comment on them.

Section 8 of the bill, however, would regulate or prohibit the securities activities of firms affiliated with foreign banks.

A number of these firms are members of Midwest and, therefore, this section of the bill does concern us.

My statement will be brief and limited to the reasons we believe section 8 of the pending legislation is unnecessary and inappropriate, and why the issues covered by the section should await resolution until the pending studies are completed.

By way of background, the Midwest Stock Exchange is the second largest stock exchange in the United States measured by dollar value.

During 1975 the trading volume on Midwest was approximately 246 million shares with a total volume of $7 billion.

Through July 31 of this year the volume on Midwest has been 171 million shares with a volume of $5.6 billion.

Midwest has 300 member firms doing business with the public. Of these, 143 are not members of the New York Stock Exchange.

Approximately 30 of our members are affiliated with foreign banks or securities firms.

Ten of our members are affiliated with foreign banks that maintain branches or agencies in the United States and thus would be affected by this legislation. I will refer to these firms as foreign members.

With respect to market making or specialist activities on Midwest, we presently have 29 specialist units making active markets in 428 securities.

Two of the foreign members act as specialists on our floor or supply capital for specialists.

These firms are responsible for market making in 17 securities or approximately 4 percent of all securities traded on the exchange.

In terms of order flow, during 1975 over 700,000 transactions were effected on Midwest. Of this number, a foreign member was on one side or another of approximately 4 percent.

My purpose in recounting this information is to make clear that our foreign members are substantial and important members of our exchange. They are a significant source of order flow to our market and represent an important and growing source of market making capital and expertise.

Obviously, Midwest is not dependent on foreign members for the viability of its market.

But the loss of order flow and market making commitments from the affected firms would, unquestionably, adversely affect the liquidity of that market to some degree.

Such a loss of liquidity might lead in turn to the redirection of other orders to other markets and thus a further weakening of our exchange.

As we work toward a national market system, it is important—as this committee so forcefully argued in its report on the bill that became the Securities Acts Amendments of 1975—to strengthen, not weaken, the regional stock exchanges as competitive trading centers.

Midwest is concerned that section 8 of H.R. 13876 would work against that objective.

Apart from the adverse consequences that section 8 would have on the Midwest market, we believe there are two further and more important considerations that argue against the enactment of this legislation.

First, there does not appear to be any demonstrated regulatory need for a prohibition on foreign securities activities in the United States.

The foreign members on our exchange have been good "regulatory" citizens. Their capital is strong and their trading activity contributes to the maintenance of fair and orderly markets.

Indeed, during the 8 years that we have had foreign members, not one disciplinary proceeding has been instituted against such a firm.

Our view as to the absence of demonstrated abuses or regulatory needs as to the securities activities of these foreign firms appears also to be true as to their banking activities.

For example, in response to a series of questions from Senator McIntyre, Arthur Burns, Chairman of the Federal Reserve Board, stated:

> There is nothing to indicate that foreign banks are "abusing" their powers in the sense that they are using the opportunities available to them under the present system to engage in any improper or unsound banking practices. On the contrary, it has been the experience of the Board that foreign banks operating in the United States have scrupulously complied with existing U.S. laws and regulations and have been generally cooperative in their dealings with the Board.

In the absence of a demonstrated need for action at this time—either because of the banking activities or the securities activities of foreign banks—we find it difficult to understand the need for hasty legislative action.

The questions concerning the appropriate role and regulation of foreign-affiliated broker-dealers in the U.S. markets are complex.

What is needed, therefore, is not hasty, broad-brush action from the Congress, but a thorough study of the activities of foreign firms.

This involves a careful balancing of the benefits these firms provide for our domestic markets against the potential dangers—competitive and regulatory.

The study should in addition cover the long-range implications of a bill such as this for the overseas activities of U.S. securities firms.

We believe the Congress and the industry should be doing everything possible to enhance the opportunities for domestic firms to compete abroad.

H.R. 13876 may run counter to this objective.

In a broader sense, all of us should be working to strengthen the international capital markets—rather than building obstacles to their operation.

The growing interdependence of the world's economies has led to an increasing need for integrated financial markets.

The presence of foreign firms in the United States and of domestic firms abroad is a clear sign that multinational securities firms are necessary for the capital markets of the future.

The Midwest Stock Exchange is opposed to any legislation that would have a restrictive effect on such international development.

The second reason for postponing action on this legislation is the studies of banks' securities activities that are now in progress.

I think we all agree that the securities activities of foreign banks present only a small part—a very small part indeed—of the overall question of regulatory and competitive fairness in the U.S. securities markets.

We have encouraged and supported the studies of bank securities activities by this committee and the Securities and Exchange Commission.

It is our understanding that both of these studies are proceeding and will be completed sometime next year. When they are, there will undoubtedly be numerous recommendations which will then be exposed for public comment and debate.

When that occurs I am sure we will all be back here discussing much the same issues as are under consideration today.

The difference, however, is that we will then have much greater knowledge about the entire phenomenon of bank security activity and it will be possible to place the issue of foreign bank participation in our securities markets in its proper context.

We agree with the former Comptroller of the Currency that "the wise course would seem to be to permit these current reviews of 1930's policies—the Glass-Steagal studies—to be completed before concluding action on this proposed legislation."

In closing, I want to emphasize that the Midwest Stock Exchange is committed to the principles of open competition embodied in the Securities Acts Amendments of 1975.

In our view, our foreign members have contributed to the competitiveness of our marketplace and the vitality of the United States securities markets generally.

Because of the absence of demonstrated abuses and in light of the ongoing studies of the entire subject of bank securities activities, we believe the constructive, competitive securities activities of our foreign members should be allowed to continue.

Therefore, while we express no view on the other parts of H.R. 13876, we urge that section 8 in its entirety be rejected.

Thank you.

Senator McIntyre. Now Mr. Dowd.

STATEMENT OF JAMES DOWD, PRESIDENT, BOSTON STOCK EXCHANGE, BOSTON, MASS.

Mr. Dowd. Thank you, Senator.

I am James E. Dowd, president of the Boston Stock Exchange, and with me today is J. Stephen Putnam, chairman of our board of governors.

We welcome this opportunity to express our views on the impact on regional stock exchanges of the provisions of section 8 of H.R. 13876 recently passed by the House.

Under the bill as it was passed affiliates of foreign banks who are engaged in the commercial banking in the United States after December 31, 1985 would be restricted to those activities as are domestic commercial banks. We believe that the House Banking Committee in reporting the bill did not give adequate consideration to the impact

of these restrictive provisions upon the regional stock exchanges by the fostering of competition among market centers which is the principal thrust of the 1975 act amendments to the securities acts.

To appreciate the impact of the bill on regional exchanges it may be helpful to the subcommittee to understand the types of foreign members we have. As is well known, the New York and American Stock Exchanges have not permitted and do not permit foreign firms to become members of those exchanges whereas the regional exchanges do permit such membership. These foreign members, all of which are registered as broker-dealers with the SEC and most of which are domestic chartered corporations, pay State and Federal taxes and are subject to all of the requirements as are U.S. registered broker-dealers.

In general, our 22 foreign firms fall into three categories: Those which are U.S. affiliates of foreign broker-dealers in Japan and the United Kingdom for example; those which are affiliates of a foreign bank which is not engaged in commercial banking in the United States; and those which are affiliates of one or more foreign bank, some of which are engaged in commercial banking in this country.

It is this third category of foreign members upon which the impact of the pending legislation is most severe and because of their relevant significance to regional exchanges and ours in particular these exchanges will suffer. Other speakers today will describe in more detail the wide range of services these firms provide to both domestic and foreign investors, but I would like to confine my comments to two of these activities, those as dealer-specialists on regional exchanges and as dealers for their own account and risk in international arbitrage, both of which activities would be prohibited by the bill.

Since ABD Securities Corp. was our first foreign controlled firm to become a member of the exchange in December 1968 and subsequently acquired membership on the Midwest and Pacific Stock Exchanges, I'll use it as an example.

ABD is and since 1969 has been on the floor of the Boston Stock Exchange as a dealer-specialist in 29 issues. Many of these issues are instantly recognizable such as Boeing Corp. Chlorox, International Tel. and Tel., and Sperry Rand. It is the specialist in four New England based big board issues as well as one issue which is traded exclusively through the Boston Stock Exchange. It is one of 19 specialist units on the Boston floor and holds six seats for its personnel. Its volume as a dealer-specialist in 1975 amounted to over 1.25 million shares and in 1976 through July 30 nearly three quarter million shares. Its average equity for dealer activity in the Boston floor is $400,000 which amounts to 11.8 percent of the total equity of all dealers combined. The firm, as of June 30, 1976, had a net capital of $5,644,000.

Having established itself on the floor of the exchange as a dealer-specialist, ADB is thus permitted to act as a broker for other members who do not have their own personal representatives on the floor. This is a substantial segment of its business and in 1975 ABD billed other members in floor commissions $954,792. It maintains a highly professional block trading staff, and in connection therewith is sometimes forced to taking a position and at risk substantial blocks of securities pending location of buyers or sellers. Its international arbitrage activity, by its nature, a dealer or principal function, has

also been substantial and through it helps to make more liquid markets in the more popularly internationally known issues.

Obviously, with a daily average settlement of over $8 million for its own and it's parents' accounts in Boston banks, to say nothing of its Chicago and west coast settlements, this is not an insignificant operation.

The exchange and its subsidiaries offer a number of services to brokers and their customers, both domestic and foreign. Among these are full back office accounting through our service corporation, full custodianship for U.S. issues owned by customers of the parent banks of the ABD and other foreign members, a service which today is handled by a division of our clearing corporation and upon formal SEC approval, expected momentarily, through a newly chartered New England Securities Depository Trust Co. This is the New England link to the national depository system and the first deposits of securities will be made by the Dresdner Bank, one of ABD's parents, and by a number of New England banks whose custodianships are currently maintained by New York banks.

During the fall we expect a very substantial deposit of issues by the Auslands Kassenverein, which is the principal clearing agency in Germany for German banks for shares held outside of Germany.

There's no question in my mind that we would not have attracted this account to Boston were it not for the track record of a custodian service package designed for the Dresdner Bank and with its assistance. The presence of this and similar custodial accounts in Boston brings with it substantial deposits of funds for banks in Boston, thereby benefiting the city's and the regional banking position.

To say that foreign members are important to the regional stock exchanges would be a gross understatement. Indeed ABD and two other foreign controlled member firms paid in 1975 to the exchange an income commission assessment of $44,611 or 21 percent of the total; in the first 6 months of 1976, $27,519 or 21.1 percent. They paid our clearing corporation for clearing and processing services $362,366 or 25.6 percent of the total revenues in 1975; and 29.2 percent for the first 6 months of this year. Custodial charges paid by these members amounted to $362,779 or 98.9 percent in 1975; and $220,359 or 99 percent for the first 6 months of this year. These firms are currently paying about 38.2 percent of the total revenues of all functions of our clearing corporation. ABD also uses the back office accounting service of our service corporation and presently accounts for 7-1 percent of the revenues of that entity.

In total, of all entities combined in all functions, the impact of firms payments amounted to 21.8 percent in 1975 an 23.4 percent in the first 6 months of 1976. I might add, Mr. Schmidt-Scheuber, president of ABD, a fellow panelist this morning will become chairman of our board, the first foreign born chairman of any U.S. exchange. Less easily identified are the charges paid by other members who brought business to the Boston floor because of ABD's presence either as the other side of a block trade or to use its services as a floor broker.

The foregoing figures demonstrate the high percentage of the exchange entities' income resulting from the presence of thee impacted firms, which income has permitted the exchange and its subsidiaries to

continue to provide an accurate, viable and competitive marketplace for the 205 exchange members, about one-half of which are not members of any other exchange.

What then are the perceivable consequences to the exchange were the present bill to be passed by the Senate and enacted into law?

First: The loss of specialists' capital from market making activity in 29 issues traded on the exchange, and if replacement capital were not located and permitted, Boston only members would be forced to give their customers' orders in these issues to New York Stock Exchange member firms and hope to negotiate a commission rate sufficiently attractive to enable them to earn some sort of a profit on such trades.

Second: It would result in the loss of a highly professional staff of block traders and arbitragers whose activity most definitely contributes to the liquidity and depth of our markets.

Third: Should such firms be prohibited from all dealer activity, they might well find it unattractive to remain as exchange members or U.S. brokers at all. The taxes they pay to the various States and the Federal Government might well persuade them that their parents' agency business could well be executed by a New York Stock Exchange firm on that exchange at negotiated rates of commission that would make neither a U.S. brokerage subsidiary or an exchange membership on any U.S. exchange any longer attractive.

Fourth: If such firms withdraw completely from the exchange community, the revenues of these exchanges would be severely and adversely affected and the ability to provide the only exchange marketplace for 92 issues solely traded on Boston would be questionable. Incidentally, these issues are for the most part located in New England and upstate New York, and as newer and emerging companies they are not yet eligible for listing and trading on the American or New York Stock Exchange.

Fifth: Without these revenues, the wide variety of trading accounting, clearing and depository services which are now all offered by the depository or will soon be available to regional members might not be provided, and regional members might find it not sufficiently attractive to attempt to survive under negotiated rates, resulting in little, if any, competition being given to the larger national wire houses.

We suggest to the subcommittee that in addition to the grandfathering until December 1985 of all current activities of the broker affiliates, consideration should be given to adding a specific approval of dealer-specialists and bona fide arbitrage activities that are clearly delineated in section 11(a) of the Securities Exchange Act as amended.

Thank you, Mr. Chairman.

Senator McIntyre. Mr. Theodor Schmidt-Scheuber, president, ABD Securities Corp.

STATEMENT OF THEODOR SCHMIDT-SCHEUBER, PRESIDENT, ABD SECURITIES CORP., NEW YORK, ACCOMPANIED BY CHARLES H. MORIN, GENERAL COUNSEL

Mr. Chairman, I shall be very brief, because I know you have many people to hear from. What follows is a summary of my prepared statement.

I am proud to have been invited to address your subcommittee, the second Senate subcommittee, incidentally, before which I have appeared, to testify as to foreign banks in the securities industry.

My name is Theodor Schmidt-Scheuber, and I am president of ABD Securities Corp. With me today is Charles H. Morin, our general counsel.

ABD is a Delaware corporation with its principal office in New York City and branch offices in Boston, Chicago, and Los Angeles, and is engaged in a general securities business. We are registered with the Securities and Exchange Commission, and we are a member in good standing of the National Association of Securities Dealers, the Boston Stock Exchange, the Midwest Stock Exchange, and the Pacific Coast Stock Exchange.

ABD is jointly owned by four large European banks, and is one of the important purchasers of U.S. securities for the accounts of European customers on U.S. securities exchanges.

I personally am indeed honored to be president of this fine organization. Eight years ago when ABE was formed as German-American Securities Corp., the policy decision was made to staff the organization with both European and American nationals so that knowledge of the needs of the many customers of the firm and appreciation of their national customs could be combined with experience in the United States securities markets.

I moved with my family to the United States and have lived here ever since. Both of my children were born here and my family has become a part of the American community. We are treated in every way as a domestic broker-dealer. We are governed by the same rules and regulations. We file the same reports. We are subject to the same examinations.

The only way we differ is that we are owned by four foreign banks, which in their respective countries conduct large brokerage businesses in accordance with prevailing laws.

Now, I should like to point out the reasons why ABD's shareholders as well as other European banks, have formed subsidiaries to become members of U.S. securities exchanges.

Obviously, economic access is significant and the reduction of the cost of executing transactions in the U.S. exchange markets is important if a foreign broker-dealer is to compete effectively with U.S. broker-dealers with foreign operations.

There are, in addition, other reasons why our four participating shareholders wish to continue ABD's access to U.S. securities markets.

Through ABD the four shareholders are able to offer their customers in Belgium, Germany, and the Netherlands, in addition to reduced brokerage costs, full investment services in the U.S. securities markets, including execution of orders, investment advice and management, direct and broader participation in U.S. offerings and corporate financial services.

Although these customer services may be available to the SBD shareholders through unrelated U.S. broker-dealers, we have found that they are not sufficiently available to the average European investor.

Furthermore, the four shareholders have discovered that their customers are more willing to invest their capital in U.S. securities

when they are dealing with an entity which is related to the financial institution with which they have been dealing over the years on a regular basis, and in which they have, therefore, more personal confidence.

And I should emphasize that although ABD was initially organized to provide these customer services, all four shareholders are also strongly committed to making ABD a contributing factor in the U.S. securities markets through its activities as a specialist on the Boston and Midwest Stock Exchanges, its trading and "positioning" of large blocks of securities, its market-making activities and its international arbitrage operations.

Obviously, all of these activities add depth and liquidity to the U.S. securities markets, and to this extent benefit not only ADB's own customers in Europe, but all investors in these markets.

They are activities which are engaged in with full knowledge of the risks involved, but with an awareness of the obligations which ABD must assume if it is to grow and prosper as a member of U.S. Stock Exchanges.

In my opinion, over the 8 years of our exchange memberships we have been model members of the U.S. regional securities exchanges, and when the rules of the New York Stock Exchange are amended we would be pleased to become an even more constructive force in your securities marketplace. This is of course the thrust of the Securities Acts Amendments of 1975.

Consider, please, the volume of business we do today on the regional exchanges:

Our trading volume is at the current rate of over 80 million shares per year—or a dollar volume of about $2.4 billion.

We will be responsible for underwriting volume of over $250 million this year alone.

We are specialists in 46 stocks of major American companies on the Boston and Midwest Exchanges, and have applications in for additional specialist books on these and on the Pacific Coast Exchange.

And most of this activity is directly targeted at attracting foreign capital to the United States.

Now, a bill is before us which would put an end to much of this activity.

We are all here today because the House of Representatives has passed a bill which we believe may destory or severely curtail the system of regional stock exchanges in the United States.

Certainly if you consider the figures which the exchanges have presented here today, and look at what ABD and my colleagues from Europe have accomplished, that fear is justified.

I suggest to you that there is no reason for this. We do not compete with American banks nor with American brokerage firms unfairly.

In fact, it is, as I have said, the irony of the matter that it was to meet the competition of the U.S. brokerage firms and banks in Europe in our own countries that we originally sought an acquired membership on U.S. exchanges.

And I think you can rest assured that if ever we should, in fact, compete unfairly with American banks they will be the first to let you know, and not the Securities Industry Association.

Mr. Chairman, if the House bill were to be enacted, ABD would be eliminated as a contributing factor in the marketplace. We submit,

that it is in nobody's interest to remove a substantial taxpayer, an important employer, a loyal and strong supporter of the regional stock exchanges, and a significant force in the flow of international capital.

Senator McIntyre. Mr. Perry.

STATEMENT OF HART PERRY, PRESIDENT, SoGEN-SWISS INTERNATIONAL CORP.

Mr. Perry. My name is Hart Perry. I am president of SoGen-Swiss International. I am accompanied by Albert J. Beveridge, III of the law firm of Beveridge, Fairbanks & Diamond. I appreciate very much the opportunity to appear before this subcommittee.

Our company, which is a New York Co., is the oldest foreign-owned investment bank in the United States. It is jointly owned by a group of foreign banks and companies. It is the product of a merger in 1973 between securities affiliates of two foreign banks, Credit Suisse and Societe Generale, joined at that time by additional foreign shareholders. Only Credit Suisse has banking offices in the United States; some other shareholders are participants in the European-American Banking group.

Our company has been serving the U.S. securities markets for a period of 37 years as an affiliate of Credit Suisse. You can appreciate why the prospect of legislation which could terminate this long-standing relationship disturbs us.

We are proud of our achievements and would like to familiarize this subcommittee with our role in the country's securities markets. We do not believe that the activities of our company and other similar investment banking firms have worked any injury to the public interest. To the best of our knowledge, no abuses have been cited. On the contrary, these companies have contributed to the smooth functioning of the securities markets and have enhanced competition. Under these circumstances, we see no need for new legislation jeopardizing our present activities.

As a technical matter, the proposed legislation applies to SoGen-Swiss only because its 50 percent shareholder, Credit Suisse, maintains a commercial bank branch in New York and an agency in Los Angeles. It seems strange to us that so much consequence is being ascribed to our company's relationship to these U.S. commercial banking offices, since we have no common management with them and, in practice, operate wholly independently. Our dealings with these offices and with European-American will measure up to scrutiny as arms-length transactions no different than our relationship with U.S. banks with whom we do business, such as Morgan Guaranty, Harris Trust Co., and Bank of America, to name a few. In point of fact, only 18 out of more than 120,000 securities transactions which we have handled since 1973 have been with the New York branch of Credit Suisse or the European-American banking group.

SoGen-Swiss offers a complete range of investment banking services. We engage in both primary distribution and secondary market activities as well as in U.S. private placements. We furnish investment advice, institutional research, and advice on mergers and acquisitions. We are members of numerous regional stock exchanges, where most

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of our brokerage business is transacted. We are fully regulated like any other U.S. broker-dealer.

Our activity, together with that of other foreign-owned affiliates, has been important to the U.S. securities industry. In the crisis which the industry faced in 1973 and 1974, we were among the few sources of new capital to offset the contraction of the industry's capital base. We have also used our capital, side-by-side with domestic firms, to help overcome the difficult market conditions of that period, such as in the competitive bidding markets.

SoGen-Swiss has contributed to decentralized U.S. securities markets. In our function as a specialist on the Pacific Coast Exchange during the first 7 months of 1976, SoGen-Swiss handled almost 10 million shares or roughly 6 percent of that exchange's total volume.

The House bill would compel our company among others to terminate vital segments of its business after a 9-year grace period. We will not be free to buy and sell securities for our own account as broker-dealers or as specialist market makers on the regional stock exchanges. We must also cease our only underwriting activities of any practical significance; that is, underwritings of securities distributed in the United States. The House proposal would undo many years of expense and effort by our shareholders to build an effective competitor.

The House bill does permit securities affiliates to enter into underwriting agreements in the United States but only for the distribution of securities abroad. However laudable its intent, this provision is not a practical solution because of the severe limitations placed on our distribution capabilities. Managing underwriters would be most reluctant to invite us into syndicate participation because we would not be able by law to sell underwritten securities in the principal market for such securities.

Also, without the freedom to distribute unsold U.S. securities in the secondary market, which is almost invariably the United States, we would be asked to take risks which we could not take on behalf of our shareholders.

These drastic restrictions would inevitably diminish competition and restrict access to the securities markets in a manner that seems wholly out of character with the Securities Act Amendments of 1975, which promised open access to all qualified applicants. The credentials of securities affiliates such as ours to undertake this competition responsibly are not a matter of conjecture, but a matter of record.

We respectfully ask the Congress to consider whether the convenience of achieving strict uniformity in the banking system is worth the destruction of existing competition in the securities industry.

Moreover, from the standpoint of competition in banking, there is no real need for uniformity. While uniform rules are frequently desirable for other reasons, they are by no means indispensable to achieve a proper balance of competition. We do not sense that U.S. commercial bankers are concerned with competition from foreign banks because of their securities affiliates.

European banks which have elected to structure their operations differently than U.S. banks are merely responding to their customer requirements in this country built upon years of tradition of broader banking relationships in Europe. However, any foreign bank so electing to combine its commercial and investment banking privileges

must forfeit some powers enjoyed by U.S. banks. Since it cannot legally control a domestic bank and cannot qualify for Federal deposit insurance in its own branches, it is at a severe disadvantage in the ability to obtain retail deposits.

For these reasons, there appears to be no need for new Federa legislation with respect to the activities of foreign-owned securitiel affiliates. Certainly, the House bill would do more harm than goods If, however, the potential for abuse is matter of concern, there are. more sensible alternatives. One approach would be to authorize the Federal Reserve Board to issue appropriate regulations, thereby avoiding severe dislocations of existing businesses.

Surely, this approach has more merit. Termination or divestiture is a remedy of last resort to be imposed only when industry structure cannot be reconciled with the public interest because of the appearance of widespread abuse or threats of competitive dominance. That is not the case here.

Another alternative that has been suggested by the Federal Reserve Board would prevent foreign banks from acquiring securities affiliates in the future, but fully grandfather existing foreign-owned securities affiliates. This would assure the continued viability of existing firms, as the House bill does not.

Grandfathering is a matter of simple equity, and the equities of our shareholder, Credit Suisse, are extremely strong. Credit Suisse had been operating in both the commercial and investment banking fields in the United States for a period of more than 30 years.

Thank you.

(Complete statement of Mr. Perry and statement of Europartners Securities Corp., whose representatives were unable to attend, follow:]

Statement of Hart Perry, President of SoGen-Swiss International Corp.

My name is Hart Perry. I am President of SoGen-Swiss International Corporation, the oldest foreign-owned investment banking firm in the United States. I greatly appreciate the opportunity to appear before this Subcommittee today since today is the first time our firm, or any other foreign-owned securities firm has had the opportunity to discuss the impact the International Banking Act of 1976 will have on our business or on the U.S. securities markets. H.R. 13876, as passed by the House, after a grace period of 9 years, would restrict certain foreign-owned securities affiliates from distributing or selling securities in the U.S. We believe the restrictions created by thei egislation may have been based on a lack of understanding of how firms such as ours operate as well as the realities of the international money markets.

HISTORY

SoGen-Swiss is the largest exclusively foreign-owned investment banking firm in the U.S. with capital of $15 million and about 110 employees. We have offices in New York, Los Angeles, San Francisco, Paris and Brussels. In 1975, we were ranked 48th out of 316 investment banking firms in the U.S. on the basis of total capital, far behind such giants as Merrill Lynch ($567 million) and Salomon Brothers ($142 million), but nevertheless a significant firm in terms of the total industry.

SoGen-Swiss is the result of the merger on July 1, 1973, of two existing foreign-owned U.S. securities firms—Swiss American Corporation, founded in 1939 as a wholly owned subsidiary of Credit Suisse in Zurich, and SoGen International Corporation, a wholly owned subsidiary of Societe Generale in Paris, founded in 1968. Our history in the United States, therefore, goes back 37 years.

At the time of the merger, the Swiss and French owners were joined by the Amsterdam-Rotterdam Bank, N.V. the Societe Generale de Banque (Brussels),

SOFINA (a large Belgian investment company), and Societe Generale Alsacienne de Banque (Strasbourg). Our owners, therefore, come from four different countries and include some of the larger international banks which operate worldwide, often on a joint ownership basis as in the case of SoGen-Swiss.

Some of our owners are engaged in commercial banking operations in the United States. The commercial banking activities of Credit Suisse in the United States are carried out through a branch in New York and an agency in Los Angeles which are completely separate and apart from our operations. Amro, Societe Generale and Societe Generale de Banque have no branches or agencies in this country but do own stock in European-American Bank & Trust Company and European-American Banking Corporation, which have three additional European bank owners as well.

SoGen-Swiss offers to corporate and individual clients a complete range of investment banking services, limited primarily by an inability to obtain a seat on the New York Stock Exchange.

Our services include: stock brokerage for U.S. and European institutions; primary distribution, principally in the U.S., of both fixed income and equity securities; secondary market activities in corporate and municipal bonds; market-making in money market instruments; investment advisory services; institutional research; mergers and acquisitions for U.S. and European clients; management of both private placements and public securities issues for U.S. and European clients. We execute most of our brokerage business on regional stock exchanges, *i.e.*, the Boston, PBW, Miswest and Pacific Coast exchanges. On the latter exchange we act as a specialist market-maker.

We are fully regulated on three levels. We are regulated first at the federal level by the SEC as a broker-dealer under the provisions of the Securities Exchange Act of 1934; second, at the state level by the State Securities Commissions; and third, by various self-regulatory bodies such as the NASD and the regional stock exchanges.

THE IDENTITY OF SO GEN-SWISS AS AN INDEPENDENT U.S. SECURITIES FIRM

As the Committee is no doubt aware, the structure of the European banking system is different from that of the United States. As is customary in Europe, our bank stockholders perform a dual function in their own markets. First, they provide deposit and lending services of the type offered by commercial banks in the United States. They also offer securities brokerage and distribution services normally provided in this country by investment banking firms. United States banks operating in Europe also engage through subsidiaries in securities brokerage and distribution activities, although they are prohibited from doing so in the U.S. under domestic law.

The predecessors of SoGen-Swiss were formed primarily to ensure that customers of Credit Suisse and Societe Generale could receive the same services from them in the United States securities market which they were accustomed to receiving in Europe. This interest by our enlarged group of shareholders, in serving their domestic customers, continues to be an important element in our business and is of continuing importance to our shareholders.

SoGen-Swiss engages in no commercial banking activities. It is exclusively involved in traditional investment banking matters. Our operations are distinct from and not related to the commercial banking activities of our shareholders. Each of the commercial banking operations of our shareholders in the United States has its own management. We have our own management. There is no common management.

In the daily conduct of our business we maintain arm's length relationships with the branch of Credit Suisse and with European-American Bank & Trust Company. These relationships are no different than the ones we enjoy with such U.S.-owned banks as the Morgan Guaranty Trust Company of New York, the Harris Trust Company (Chicago), and the Bank of America, just to mention a few. For example, since the formation of SoGen-Swiss, the firm has participated as an underwriter in more than 700 public issues; it has sold none of such issues to European-American and only two to the New York branch of Credit Suisse. During that same period, we estimate we have completed more than 8,000 transactions in the secondary bond market of which none were with European-American and only three with the New York branch of Credit Suisse.

Let me emphasize, that even though we are owned by foreign banks, we are an American firm with an American management and a staff which is 90%

American. Although our clientele is international in nature, our distribution of securities is principally in the U.S. Just as American institutions are offering a healthy competition in the European markets, so are the European affiliates increasing the competition in the U.S. markets.

CONTRIBUTION TO THE U.S. SECURITIES MARKET

While the expansion of our firm resulted primarily from our shareholders' wish to better serve their customers, our growing activity, together with that of the other foreign affiliates, has been important to the U.S. securities industry as a whole. In 1973 and 1974, you will recall, the securities industries faced a severe crisis. Many securities firms, both large and small, suffered simultaneously a loss of business and disinvestment by their owners. NYSE member firms' total capital shrank by $438 million, due to withdrawals, losses and failures during the period from mid-1969 to the end of 1974. During that same period, the public financing requirements of American industry increased 50%, aggravating the impact of the capital loss in the investment banking industry. The foreign firms which brought permanent capital to our industry during that period were among the few sources of new capital to offset the contraction of its capital base. Now that the crisis has abated and our shareholders' participation may appear less important, we submit it should not be made so wholly unwelcome as is suggested in the legislation passed by the House.

Nor should our shareholder's investment in the American securities business be seen as passive. SoGen-Swiss and other foreign-owned firms have used their capital, side-by-side with those domestic investment banking firms to help smooth out fluctuations in the markets—for example, by participating, at a predictable loss I should add, in the extremely difficult competitive bidding markets in 1974, when it was either difficult or impossible for all except blue chip utility companies to come to market.

We believe, therefore, that the group of foreign-owned securities firms have made a valuable contribution in recent years to the capital formation process in the U.S. As important as that contribution has been, it should be recognized that the industry has and will continue to be dominated by the larger U.S.-owned firms such as Morgan Stanley, First Boston, Merrill Lynch, and Salomon Brothers, to mention a few.

In addition, our shareholders' investment provides an additional channel for direct investment in the U.S. Many customers of our shareholders prefer to deal with their own bankers in direct investments as well as portfolio investment transactions, must as many U.S. corporations prefer to deal with U.S. banks and investment banking firms abroad. They view So Gen-Swiss and other foreign-owned firms as their bankers' U.S. representatives. Without the comfort derived from this relationship, I believe that some foreign investors might be reluctant to make direct investment in the U.S. This foreign investment continues to grow and has become a significant factor in expanding the capital base of American industry, with consequent contributions to increasing employment within the U.S.

Finally, we are contributing to the development of decentralized securities markets in the United States. In our function as a specialist on the Pacific Coast Exchange during the first seven months of 1976, SoGen-Swiss handled 9,861,000 shares or 5.8% of the total volume on the Exchange for that period. The firm also executed 3,490,000 shares or 2% of the total for the Exchange.

A strong indication of the overall significance of foreign-owned securities affiliates to the regional exchanges appears in membership statistics aired by Congressman Moss in floor debate on H.R. 13876. Foreign members on the Boston Stock Exchange account for 13% of the total membership; on the Midwest Stock Exchange they account for 8%; on the Philadelphia Stock Exchange they account for 6%; and on the Pacific Stock Exchange they account for 5%. Disappearance of these members would have obvious adverse impact on the standing and liquidity of these markets.

IMPACT OF H.R. 13876 ON SOGEN-SWISS

H.R. 13876, as passed by the House of Representatives, would exclude from those nonbanking activities of foreign banks qualifying for permanent grandfather treatment "the business of underwriting, distributing, or otherwise buying or selling [for one's own account] securities in the United States." This special category of securities activities would be required to be terminated or divested by

foreign banks by December 31, 1985, to the extent that such activities exceed the bounds of permissible activities for national banks (principally, underwriting of Government securities and general municipal obligations), with one limited exception discussed below.

It should be clearly recognized that H.R. 13876 would substantially alter the legal environment in which So Gen-Swiss and other securities affiliates of foreign banks operate and would inevitably diminish competition in the U.S. securities markets. It is the essence of investment banking to buy and sell securities for one's own account, both in the course of underwriting securities to be distributed in the primary market and in the course of distributing or making a market in securities in the secondary market. It would appear to be the intent of H.R. 13876 to prohibit the securities affiliates of foreign banks from performing after December 31, 1985, their customary functions as broker-dealers, underwriters of securities and specialists on exchanges.

In limited exception, the bill would permit securities affiliates of foreign banks to continue to participate in domestic underwritings, so long as their distribution is effected only outside the United States, While we appreciate the spirit of compromise which motivated this provision, it does not represent a practical solution to the potential competitive problems facing companies such as ours if the bill is enacted.

A franchise to underwrite U.S. securities, but to sell only outside the United States is no franchise at all because the primary and secondary markets are inextricably interrelated. Even if the distribution efforts of the SoGen-Swiss were directed entirely outside the United States, it would be confronted, upon the failure of an offering to be fully placed, with the need for access to the secondary market to distribute the unsold securities. The secondary market for securities underwritten in the United States will almost always be the United States. Most managing underwriters would be reluctant to include in their syndicates foreign-owned firms which have such severe restrictions on their distribution. In any event, as an underwriter, SoGen-Swiss would incur an undue risk if it were required to distribute securities exclusively outside the United States.

These difficulties are exacerbated by severe limitations on the market for U.S. securities abroad. Due to withholding tax considerations, foreign investors rarely participate in the U.S. corporate bond market and the interest in new equity issues is at best sporadic. The volume of foreign investment in new issues in the U.S. has been relatively insignificant and therefore the authority granted by the bill to underwrite in the U.S. but sell only abroad is, parctically speaking, of no real use.

It is argued that the ten-year grace period offered in the bill would allow firms such as SoGen-Swiss and their owners ample time to restructure both their activities and relationships in the U.S. securities markets. However, in our view, the advantage conferred is more hollow than real because the limitations on the operations of securities affiliates which the bill would impose would so undermine the profitability of their operations as to cast doubt on their continued viability.

The effect of the legislation on us would be immediate. It is impossible to build or maintain a dynamic organization if the principal activities of that organization are to be taken away from it at a specific date. The bill would create severe morale problems among existing employees and could make the recruiting of additional or replacement staff virtually impossible.

PUBLIC POLICY CONSIDERATIONS

We believe that deliberations in the House suffered from the tendency of its proponents to concentrate on broad domestic banking policy objectives to the exclusion of other relevant public policy considerations.

In 1975, Congress enacted the Securities Act Amendments, premised on the need for increased competition and economic efficiency in the country's securities markets. Among other things, the legislation opened markets to all qualified applicants, including foreign-owned firms, which had been excluded from membership on the New York and American Stock Exchanges, and did away with fixed fee schedules unrelated to costs. The adverse impact of H.R. 13876 on competition in the securities markets must be weighed against the objectives of this most recent legislation. It is not necessary to negate the validity of the Glass-Steagall Act as a general statement of public policy, but merely to seek to achieve some degree of reconciliation between the differing purposes of both laws. The seriousness of ignoring national policy with respect to the securities markets is detailed

in a letter dated July 16, 1976, from Congressman Moss to Chairman Reuss of the House Banking Committee, a copy of which is attached to this statement.

The entry of foreign banks responds to competitive considerations associated with the capabilities which they can bring to the market. The rigid approach taken by the House could contravene sound economic policy by forcing a foreign bank such as Credit Suisse out of areas (*e.g.*, the wholesale banking or securities business) in which it has expertise and is making significant contributions in the United States and into areas (*e.g.*, retail banking) in which it may have less potential for developing a competitive presence.

The anticompetitive effects of H.R. 13876 cannot be justified by reference to the purpose for which the Glass-Steagall prohibition was initially imposed: the elimination of conflicts of interest arising through affiliations between commercial banking and investment banking. No such abuses involving a securities affiliate of a foreign bank have been cited, and the potential for abuse has been substantially reduced by improvements in, and increasingly sophisticated administration of, the U.S. securities laws in recent years, to which regulation SoGen-Swiss is fully subject in its operations. In the absence of a traditional Glass-Steagall rationale, the bill's proponents fall back on the merest deduction that, since foreign banks enjoy a power not shared by domestic banks, they must necessarily enjoy an unfair competitive advantage.

It seems to us that the supposed competitive disadvantages are being distorted out of all proportion to the underlying realities of the marketplace. To our knowledge, no industry group nor any study has suggested that the affiliation of a limited number of foreign banks with securities affiliates has produced any competitive inbalance in the banking industry.

In fact, existing legislation already limits the competitive position of foreign banks vis-a-vis domestic ones. A foreign bank may not, on its own, maintain an investment banking affiliate and also engage competitively in the retail banking business in this country. If a foreign bank merely has a branch or an agency in the U.S., it is permitted to maintain an investment banking affiliate but its deposits may not be insured by the FDIC and therefore it cannot compete at the retail bank level with the attendant benefits of a broad customer base. On the other hand, if the foreign bank were to establish a banking subsidiary, it would obtain FDIC insurance, which would permit it to engage in retail banking, but it could not maintain an investment banking affiliate since the Bank Holding Company Act would be applicable. These legislative restrictions are sufficient to preclude any competitive disadvantage to U.S. commercial banks.

Finally, this problem cannot be considered outside its international framework. In Europe, the commercial banks are often the dominant force in the securities markets and their customers expect a broader range of services. Thus, when they expanded to the American market, foreign banks were already a part of the securities industry outside the U.S. and were logical new entrants into the U.S. securities markets. We see no reason why Congress should prohibit the servicing by foreign banks of the normal investment banking requirements of their customers where the balance of competition among domestic and foreign banks is not seriously threatened.

As an example of the potential complications which might arise if this accommodation is not continued, I refer to the provision of Swiss law which requires that Swiss banks abroad not be placed on an appreciably less favorable footing than foreign banks operating in Switzerland. A letter on this subject has been sent from F. Lutweiler, President of the Swiss National Bank to Arthur Burns, Chairman of the Federal Reserve Board.

ALTERNATIVES

Congress has three broad alternatives to H.R. 13876; (1) no legislation at all with respect to securities firms owned by foreign banks in this country; (2) provision for regulation of foreign-owned securities affiliates by an administrative body; (3) grandfathering the activities of existing affiliates.

We strongly favor the first alternative. No legislation is necessary because no abuses have been shown and no significant potential for abuse exists and also because there is no imbalance in the competition between domestic and foreign banks in this country by virtue of the present ability of foreign banks to own securities affiliates under certain limited conditions. The purported rationale of the House bill is baseless.

However, if Congress is impelled to act, the second alternative offers less drastic measures than those imposed by the House bill which will protect the public interest while at the same time preserving the recognized contribution which firms like SoGen-Swiss make to the U.S. securities markets. These measures would include issuance of regulations by an expert body, such as the Federal Reserve Board, designed to insure against potential abuses. Such a regulatory body might also retain the power to hold divestiture hearings.

A third alternative would be the approach suggested by the Federal Reserve Board which would prevent foreign banks from acquiring securities affiliates in the future but would fully grandfather existing foreign-owned securities affiliates. This would assure the continued viability of existing firms as vital competitive forces, as H.R. 13876 does not, and it would avoid the international complications which might arise from forcing divestiture of these firms.

Full grandfathering is also a matter of simple equity. If Congress wants to change the rules, it may do so, but it should not penalize those who have established businesses in this country in good faith and in conformity with the law. I am struck by the analogy of zoning laws. When a community imposes a new zoning code, but it does not tear down existing buildings but permits prior inconsistent uses to continue. This well-recognized policy is based both on principles of equity and on the recognition that it is economically wasteful to make all structures meet the new standard. Those same considerations are applicable here, where changes are proposed in laws which fostered substantial investments and commitments of manpower by the shareholders of SoGen-Swiss and other securities affiliates.

In historical perspective, the equities of our shareholder, Credit Suisse are stronger than those of the domestic one-bank holding companies grandfathered in 1970. Credit Suisse is no late entry into the securities or commercial banking business in the United States. It has been affiliated with our company since 1939, and it opened its commercial bank branch in New York City in April 1940.

In selecting an appropriate grandfather date in 1970, Congress was influenced to select a date as late as 1968 by the fact that it had passed over two opportunities in 1956 and 1966 to bring one-bank holding companies under the Bank Holding Company Act. Similarly, Congress has chosen not to subject foreign bank operations in the U.S. to the full coverage of federal banking laws on more than one occasion: In 1966, when no action was taken on a proposal of Senator Javits for foreign bank legislation following a survey of foreign bank activities prepared for the Comptroller of the Currency and submitted to the Joint Economic Committee, and again in 1970, when the Bank Holding Company Act was extended to one-bank holding companies, but Congress specifically excluded foreign banks with branches from coverage.

Since there were and still are reasonable policy considerations supporting such exclusion, there was no reason to anticipate a change in the rules. The earliest possible notice of any impending change was the publication by the Federal Reserve Board on February 1, 1973, of an announcement that it had been reviewing the regulatory issues posed by U.S. activities of foreign banks as a result of the three-fold expansion of the assets of foreign bank branches and agencies between 1965 and 1972, and the responsibilities assigned to the Board under the Bank Holding Company Act Amendments of 1970.

By February 1, 1973, however, Credit Suisse had been operating in the commercial and investment banking fields in the United States in good faith and in conformity with applicable law for a period of more than 30 years. Under the circumstances, it appears unduly harsh to deny it grandfather treatment, when the qualifying period for similar treatment accorded to domestic one-bank holding companies in 1970 was a period of less than three years antecedent to the legislation.

In summary, we do not believe legislation is necessary in the area of foreign-owned securities affiliates.

If Congress is to legislate in this area, however, it should adopt the more reasonable approach of setting guidelines for the Federal Reserve to follow in establishing federal regulations to make sure that no imbalance of competition develops. If Congress should prohibit future entry of foreign banks in the investment banking field, equity and public policy require the existing foreign-owned securities firm to be fully grandfathered.

I wish to thank you once again for the opportunity to present our views.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C., July 16, 1976.

Hon. HENRY S. REUSS,
Chairman, Committee on Banking, Currency and Housing,
U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The prohibitions on domestic securities activities of foreign banks, or firms associated directly or indirectly with foreign banks, which have a commercial presence in this country give me great pause. I hope you will find the concerns raised in this letter worthy of your usual thoughtful consideration.

As I read section 8 of H.R. 13876, the International Banking Act of 1976, and the accompanying committee report (Report No. 94–1193), it would prohibit a foreign bank or a person directly or indirectly associated with such a bank which maintains a commercial banking presence in the United States from engaging in securities activities in the United States, directly or indirectly, unless that entity was engaged in those activities on or before December 3, 1974. "Grandfathered" firms could retain unchanged their investment banking arms in the United States only until 1985. Thereafter, they would be required to restrict their United States investment banking activities to such a degree as to render them, for all practical purposes, incapacitated competitors in the United States securities industry. If a foreign bank were to surrender its commercial banking presence in the United States, then, and only then, could it remain in the United States securities business. I understand, however, that surrendering commercial activities would be impracticable for an international banking organization.

Given my responsibilities as Chairman of the Interstate and Foreign Commerce Committee's Subcommittee on Oversight and Investigations and given my role as former Chairman of the Consumer Protection and Finance Subcommittee which extensively considered securities issues addressed in the comprehensive Securities Acts Amendments of 1975 (P. L. 94–29), those grandfather and prospective prohibition provisions raise two major concerns. First, they appear to represent a policy totally inconsistent with the 1975 Securities Acts Amendments. Second, they could initiate a rapid deterioration of United States economic relations with governments which currently permit United States commercial and investment banking firms to operate in their respective countries.

Apparently, the issue which the House Banking Committee perceived it faced was: the extent to which a foreign bank or its securities affiliate operating in the United States should be subject to the same limitations on its securities activities as are applicable to national banks. When this same issue was before the House Commerce and the Senate Banking committees during consideration of the securities legislation which ultimately became the 1975 Securities Acts Amendments, the New York Stock Exchange and the Securities Industry Association argued that a foreign bank or its subsidiary ought to be prohibited from exchange membership and related securities activities, because to do so would violate national policy, embodied in the Glass-Steagall Act of 1933, excluding national banks from engaging in investment banking activities.

This reasoning was rejected by both the House and the Senate. Indeed, an exactly contrary conclusion was reached in light of the Congress' desire to maximize competition in the securities industry. With respect to exchange membership, the Congress adopted a policy of open membership. A firm may be denied membership only if minimum capital or competency requirements are not met or if the person is otherwise statutorily disqualified. Foreign bank parentage is not a statutory disqualification. (Section 6(b)(2) and Section 6(c)(3) of the Securities Exchange Act of 1934, 15 U.S.C. 78f(b)(2) and 78f(c)(3)).

The situation resulting from the Congress' resolution of this issue in the 1975 Securities Acts Amendments may appear on the surface to allow a foreign bank or its subsidiary to do something which at least some domestic banks or affiliates thereof may not do. This apparent anomaly is explained, however, by examining how foreign governments treat entities which provide commercial and investment banking services. Unlike the United States, banking policies of most of our major European trading partners permit one entity or its subsidiaries to engage in both banking functions. In those countries, banks traditionally have been the entities which provided commercial and investment banking services. Thus, when a European entity expands its securities operations to this country, it is generally a bank which does so.

Another apparent anomaly is that we allow domestic banks through their Edge Act affiliates to engage in the securities business abroad. In terms of international relations, we have permitted foreign banks to engage in securities activities, although domestic banks are limited in that regard; our trading partners have permitted United States banks to engage in securities activities, although it may not be legal in this country. Requiring foreign banks to split their banking functions in this country is unlikely to change their respective governments' internal banking policies. Such a requirement, however, may change how foreign governments treat United States multinational banks and securities firms. After all, it would be indeed inconsistent if we were to prohibit foreign banks from doing in this country what we permit United States banks to do abroad.

It would be equally inconsistent for the Congress, on one hand, to prohibit a United States stock exchange from discriminating against a securities firm of foreign bank parentage pursuant to the 1975 Securities Acts Amendments and, on the other, to forbid a securities firm of foreign bank parentage with a commercial presence in this country from being a member of a United States stock exchange pursuant to the International Banking Act of 1976 as it is drafted. Enactment of section 8 certainly would give the Congress the image of not knowing what we are doing.

It would be most unfortunate for this to occur, because we did know what we were doing when we considered the problem of foreign exchange members owned or associated with foreign banks. Fearing that I might be impinging, at least partially, upon the jurisdiction of the Banking Committee, I maintained the closest of liaison with the former distinguished chairman of the Banking Committee, the late Honorable Wright Patman of Texas, throughout our consideration of the foreign exchange member provisions of the securities legislation which became the Securities Acts Amendments of 1975. Having done so, he voiced no dissent when the matter came before the full House in 1974.

The primary purpose of the 1975 Securities Acts Amendments is to maximize competition in our securities marketplaces by removing unnecessary regulatory restrictions and other impediments to competition. Equally important is the statutory objective of developing the national market system through the interplay of competitive forces whereby brokers and dealers, exchange markets, and markets otherwise than on exchanges would compete fairly and be linked together through communication and data processing facilities. In summary: The rapid attainment of a national market system as envisaged by this bill is important, therefore, not simply to provide greater investor confidence but also to assure that the country maintains a strong, effective and efficient capital raising and capital allocating system in the years ahead. (*Conference Report*, Securities Acts Amendments of 1975, No. 94–229, May 19, 1975, p. 91.)

One of the most important ways in which the national market system will maintain strong, effective, and efficient markets is by opening up the function of marketmaking to competition. Dealers who stand ready and willing to buy or sell in certain stocks compete by narrowing the spread between bid and asked quotations. Increasing the number of dealers making markets in a given stock also will improve the depth and liquidity of the securities marketplaces. Narrowing spreads and building greater depth and liquidity are essential for bolstering sagging public, particularly small investor, confidence.

What competition there is today in making markets in New York Stock Exchange listed stocks comes from third market makers and specialists on regional stock exchanges. To provide an idea of the anti-competitive impact of the section 8 prohibitions, consider the fact that one foreign securities firm associated with a foreign bank having a commercial presence is a member of three regional exchanges and makes markets in about 55 stocks, most of which are major stocks. If the number of [illegible] the amount of capital committed to the market making [illegible] how can the regional exchanges compete fairly with [illegible] exchanges would be at a disadvantage in com[illegible]. Both of these expected results would be c[illegible] law which directs the SEC in facilitating the [illegible] market system, to assure "fair competition a[illegible] exchange markets, and between exchange [illegible] markets." (Section 11A(a)(1)(c)(ii),

[illegible] making is order flow. In fact, market [illegible] order flow. Thus, reducing the [illegible] though the member firm is not a

market maker, would be detrimental to that exchange's efforts to compete with market makers on other exchanges and third market makers. Foreign members on the Boston Stock Exchange account for about 13 percent of total membership; on the Midwest Stock Exchange, foreign members are 8 percent of the total; on the Philadelphia, 6 percent, and on the Pacific they are 5 percent. It can be reasonably expected that many, if not most, of these members will be affected by section 8. Although the percentages are small, they are significant. Since the total number of competitors is small, eliminating even a few of them could be expected to reduce order flow significantly and to decrease competition drastically.

Another way to evaluate the effect on competition is to identify the beneficiaries of the section 8 prohibitions. Since the primary market is the NYSE, which accounts for approximately 85 percent of this Nation's equity trades in terms of volume, any reduction in the regional exchanges' order flow, number of market makers, and amount of capital committed to market making would redound in two significant ways to the benefit of NYSE members firms, most of of which, not surprisingly, support section 8.

First, it would tend to make the regionals in terms of retail trading activity, market making, and quality of markets less competitive relative to the NYSE. Second, it would have the effect of forcing foreign securities firms and other foreign interests to channel their transactions in United States securities marketplaces through many of these same NYSE firms which do a profitable foreign securities business. Since these firms are NYSE members, it is almost certain that the increased order flow received by them would be transacted on the Big Board, placing both regional exchanges and very possibly third market makers at an even greater competitive disadvantage.

Competition with the big NYSE member firms would be reduced further in the arbitrage function. Many foreign and domestic securities firms risk their own capital after United States markets close by offering blocks of United States stocks to institutional investors abroad at a price in relation to the NYSE close in that stock. If the firm succeeds, not only can it be a very profitable business, but also United States markets benefit in terms of heightening interest in our securities marketplaces, improving out markets' depth and liquidity, and ultimately making our markets better for all public investors. By prohibiting foreign securities firms associated with foreign banks from engaging in this arbitrage business, United States securities firms gain a larger share, if not all, of this foreign business.

When foreign securities firms and their parent banks see their United States-directed securities business dry up, not because of competition by superior American securities firms, but because of protectionist laws, we invite retaliation and risk lessening foreign participation in our securities marketplaces to the detriment of our public investors in the short run and our economy in the long run.

It is for the reasons set forth above that I strongly oppose section 8 of the International Banking Act of 1976. At the very least, I suggest that this matter has not been adequately heard in regard to its impact on competition in our securities marketplaces, the development of the national market system as envisioned by the 1975 Securities Acts Amendments, and its inconsistency with respect to that statute's mandate for open membership on United States stock exchanges. Therefore, I urge you to seek referral of this matter to the Interstate and Foreign Commerce Committee.

Sincerely,

John E. Moss,
Chairman, Oversight and Investigations Subcommittee.

Prepared Statement of EuroPartners Securities Corp.

We appreciate Senator McIntyre's invitation to Mr. Friedhelm Jost, President of EuroPartners Securities Corporation ("EuroPartners") to testify at the hearings on H.R. 13876, the International Banking Act of 1976. EuroPartners is very concerned about this bill. However, in view of the large number of witnesses scheduled for these hearings we have decided after consultation with the Subcommittee's staff to refrain from giving oral testimony and to limit our comments to this written statement.

EuroPartners is a broker-dealer registered with the Securities and Exchange Commission. It was incorporated in New York on January 31, 1968 as Credit Lyonnais Corporation, of which Credit Lyonnais (France) was the sole sh -

holder. The name EuroPartners was adopted in 1970 when Commerzbank AG (Federal Republic of Germany) joined Credit Lyonnais as a shareholder. Banco di Roma (Italy) became a shareholder in 1971, Nordic Bank Limited (United Kingdom) in 1974, and Bank Leu (Switzerland) in 1975.

EuroPartners is a member firm of the Philadelphia Stock Exchange, the Midwest Stock Exchange, and the National Association of Securities Dealers, all of which have regulatory authority over the firm's operations. At the present time EuroPartners' equity capital is approximately $7.5 million, and it engages in a full range of investment banking and securities activities. EuroPartners' operations are entirely separate from the commercial banking operations of its shareholders, which are conducted in the United States through branches, subsidiary banks and agencies.

EuroPartners' principal objection to H.R. 13876 can be stated quite simply: While purporting to legislate competitive equality, this bill's actual effect would be to prevent Continental European institutions from competing in the United States securities markets. In other words, H.R. 13876 is blatantly anticompetitive. It would legislate inequality in the international banking and securities business by giving United States securities firms a permanent competitive shield at home while leaving those firms as well as United States commercial banks free to compete aggressively in all areas abroad.

To appreciate the implications of H.R. 13876 it is necessary to understand the banking structures of other countries, particularly those of Continental Europe including France, Germany, Italy and Switzerland. With minor variations, these countries have the universal bank system. That is, the banking institutions, such as EuroPartners' shareholders, provide all financial services, including those provided in the United States by investment banks and broker-dealers as well as those provided by commercial banks. These universal banking institutions compete in their home countries with each other and with a large number of United States commercial banks from many different states, and about 25 major United States securities firms. In turn, these foreign institutions compete in the United States against both commercial banks and securities firms—the significant difference being that when they compete in the United States, their commercial and investment banking activities are separated, with all securities activities being conducted through registered broker-dealers subject to the SEC's regulation.

If H.R. 13876 were passed and European financial institutions were forced to choose between having commercial banking or securities operations in the United States, the small size of their existing investment banking subsidiaries and the barriers to growth would invariably cause foreign institutions to drop investment banking in favor of commercial banking. The consequence would be the permanent elimination of Continental European competition in the United States securities industry. Although this would evidently be welcomed by some United States securities firms—shortsightedly we believe—the consequences for investors, issuers, and the securities markets generally could only be adverse.

The Securities Acts Amendments of 1975 established competition as a fundamental goal for the United States securities markets. In furtherance of this goal, the 1975 Amendments specifically contemplated the continued operation of foreign securities firms in the United States, subject, of course, to the Securities and Exchange Commission's authority and responsibility to take ". . . such steps as it deems necessary or appropriate in the public interest and for the protection of investors to deal with the special problems of foreign and foreign-controlled brokerage firms and any unique stresses which their trading activities and other conduct may bring to bear upon the U.S. securities markets." S. Rep. No. 94–75, 94th Cong., 1st Sess. 69 (1975).

Pursuant to that responsibility, the Securities and Exchange Commission recently completed a review of the entire question of the access of foreign securities firms to the United States securities markets. Based on its review, the Commission determined that the New York Stock Exchange's proposed restrictions on such access were inappropriate. As the Commission stated: "In light of the 1975 Amendments, it is plain that the Congress has determined that free access to securities markets is henceforth to be a fundamental principle of the federal securities laws." Sec. Ex. Act Rel. No. 12737 at 28 (August 25, 1976).

H.R. 13876 is directly at odds with this fundamental principle of free access. It pursues the misconceived objective of so-called "equal national treatment" without taking account of the structure of European financial institutions. The

result is grossly unequal treatment disruptive of sound international competition. Under H.R. 13876 the United States would be turning a protectionist face to Western Europe.

The securities affiliates of foreign financial institutions have made and are continuing to make constructive contributions to the United States financial and capital markets. They bring substantial capital into the United States securities industry for underwriting, trading and market making. Much of this capital was infused in the critical period of the late 1960's and early 1970's when Wall Street's capital was being eroded and withdrawn at an alarming rate. Furthermore, foreign institutions have shown a continued willingness to commit their resources to the United States securities markets—despite the difficulty of raising capital for this purpose in the United States. For example, in addition to the capital invested in so-called "foreign affiliates," such as EuroPartners, foreign financial institutions have made significant capital investments in a number of well-known United States securities firms, including White, Weld & Co., Inc., Lehman Brothers, Inc., Blyth Eastman Dillion & Co., Inc., Shields Model Roland, Inc., and William D. Witter, Inc. These investments have been important in maintaining the competitiveness of these firms and avoiding further concentration in the securities industry.

In addition to strengthening capital and competition in the securities industry, foreign owned securities firms have stimulated the interest of European customers, individuals and institutions, in investing in United States securities. This has been beneficial to the liquidity of United States securities markets and to the United States economy as a whole. The brokerage volume brought to the United States has contributed significantly to the depth of the regional stock exchanges and thus strengthened their competitive position. (By contrast, United States securities firms operating in Europe bring relatively small amounts of capital to European markets and virtually no business from United States customers.)

The foreign affiliates have also played an important role in the recent expansion of the American economy. These firms have raised capital and otherwise assisted foreign companies building new plants and production facilities in the United States. The benefits of these activities are apparent in increased employment and productivity.

Much has been said about the competitive disadvantage at which United States banks and securities firms are placed because foreign banks have United States securities affiliates. We believe this disadvantage is theoretical at best and that concern about it may reflect a basic misunderstanding of the way in which foreign securities firms operate. In this regard the following points are relevant:

1. Because foreign banks must carry out their banking and securities activities through separately organized and regulated entities, an effective "wall" has been generally established between these businesses. In EuroPartners' case, commercial banking and securities activities in the United States have completely different managements that specialize in different businesses and are responsible independently for their profitability. EuroPartners does no business, other than the maintenance of ordinary checking accounts, with the United States commercial banking affiliates of its parents.

2. Because the ownership of most of the foreign securities firms is divided among a number of foreign financial institutions from different countries—in EuroPartner's case, seven different countries—no one foreign financial institution has control or the ability to use the securities affiliate for its unique advantage.

3. We are not aware of any major United States bank that has expressed concern over the alleged competitive inequality between European and United States banks operating in this country. To the contrary, we understand some of the major United States banks have expressed concern over the possible adverse consequences the legislation could have for their own activities abroad.

4. Although some members of the securities industry have supported the exclusion of foreign firms from the United States, we do not believe this position is consistent with either the best interests of the United States capital markets or the aggressive pursuit by these firms of business abroad.

5. United States commercial banks and United States securities firms are active in European markets as managing and participating underwriters, securities dealers, and commercial bankers. Several United States securities firms own banking subsidiaries in Europe as well as being active in the securities business. Although precise comparisons differ depending on the measure selected, United States banking and securities activities abroad are significantly greater than foreign activities in the United States on a magnitude of perhaps four or five to one.

6. Domestically, United States banks offer a considerable range of investment banking and securities services, including private placements and advice in connection with mergers and acquisitions. Commercial banks also appear to be able to offer certain securities brokerage services.

7. Unlike United States banks, the United States securities activities of foreign banks are conducted through securities affiliates that are regulated by the same agencies and to the same extent as are United States broker-dealers. Foreign firms enjoy no competitive advantage over United States securities firms due to regulatory inequality. Thus the questions about the comparability of domestic bank and broker-dealer regulation that this Committee has been studying do not arise in the case of foreign banks' securities activities in the United States.

In our view there is little to recommend the passage of this controversial legislation. There is no demonstrated need for the restrictions it would impose. To the contrary, during the approximately eight years that the so-called "foreign affiliates," such as EuroPartners, have been in operation, no significant regulatory or compliance problems have arisen. EuroPartners and the other foreign affiliates have cnducted their business in accordance with the highest standards of performance and propriety that may be found in the securities industry. In setting up EuroPartners, considerable effort was made my our shareholders and ourselves to assure that we are always in compliance with applicable United States laws and regulations, including the Glass-Steagal Act, the Bank Holding Company Act and the federal securities laws.

Rather than correcting perceived problems, the effect of H.R. 13876 would be to prohibit the financial institutions of the Continental European countries from continuing their relatively small securities activities in the United States while permitting United States banks and securities firms to continue to expand their already significant commercial banking and securities activities abroad. This new competitive advantage for the major United States banks and securities firms is contrary to fair international competition and sound principles of international reciprocity. It is also contrary, we believe, to the fundamental policies this Committee was so instrumental in developing for the United States securities market. Accordingly we urge the Committee to reject this bill.

If, contrary to our position, the Committee decides to proceed with the consideration of H.R. 13876, the bill should, at a minimum, be amended to permit foreign banks which operate in their home countries as universal banks to carry on securities activities in the United States through registered broker-dealers. Only in this way can foreign competition in the United States securities industry and the United States banking industry evolve in a healthy manner. Such an approach to the legislation would avoid the need for "grandfathering," which would arbitrarily exclude from the United States market only a handful of potential new foreign competitors.

While philosophically we cannot support "grandfathering" as either a necessary or satisfactory solution to foreign securities activities, if such an approach were adopted, the grandfathering must be full, complete and permanent for existing securities affiliates. This is the minimum that can be accepted as fair treatment. With permanent grandfathering, the "grandfathering date" should be not earlier than May 1, 1976, the date used in Section 5 of the bill for multistate banking locations. Such grandfathering should also permit a universal bank having an existing participation in a securities firm to establish a commercial banking operation in the United States without divesting its interest in the securities firm.

It should be recognized that the "limited grandfathering" contained in Section 8 is no grandfathering at all. To permit existing foreign securities affiliates to continue existing operations only until 1985 and thereafter to underwrite but not to sell or distribute or act as dealer in securities in the United States is, in effect, to put these firms out of business.

In the first place, there is no regulatory logic to permitting foreign firms to take underwriting risks while severely limiting their ability to resell and distribute their underwriting positions. This would turn a business which normally involves minimal risks into one involving serious risks. In order to underwrite it is necessary to be able to resell your positions in the market for which the issue is priced and the underwriting risks are structured. It is also necessary to be able to deal actively in the secondary market in that country. It would not be possible, even with significant placement capability in European markets for some equity issues, to regularly underwrite securities in the United States as contemplated by H.R. 13876. Lacking the ability to place underwritings domestically, we would soon cease to be invited as a participating underwriter in United States syndicates and would be noncompetitive as a managing underwriter.

In the second place, with a deadline of 1985 on viable operations, we would be unable to offer to valued present employees or to those persons we might seek to employ a meaningful career and future. More important, it would become extremely difficult to sell our services to existing and potential clients aware of the limited life expectancy of our firm. Passage of H.R. 13876 in its present form would result in the forced dissolution of our operation, at an early date.

Thank you for the opportunity to comment on this legislation.

Senator McIntyre. Thank you, gentlemen, for your helpful statements. As I indicated at the outset this morning, one of our primary purposes here is to try to see where satisfactory solutions can be reached. These questions will be addressed to you in the order in which you testified here.

Both the Federal Reserve and the Treasury suggest permanent grandfathering of securities affiliates as an acceptable solution to the problems suggested in section 8. Do you feel that this is a satisfactory solution, Mr. Tobin?

Mr. Tobin. I feel that it would not be desirable. It would be potentially satisfactory in the sense that it wouldn't offer the disruptive impact the present legislation would offer, but the movement should be toward greater internationalism in the securities industry and hence a grandfathering approach would move in the wrong direction.

Senator McIntyre. How about you, Mr. Dowd?

Mr. Dowd. I would be inclined to agree with Mr. Tobin, Senator.

Senator McIntyre. That this is not a satisfactory solution?

Mr. Dowd. It is not a completely satisfactory solution.

Senator McIntyre. Do you agree with that, Mr. Ackerman?

Mr. Ackerman. Yes, sir. We take the position parallel to Chairman Hills of the SEC that you incorporated into the record earlier that it's a question really of the appropriateness and not the grandfathering.

Senator McIntyre. Do you wish to comment, Mr. Schmidt Scheuber?

Mr. Schmidt-Scheuber. It wouldn't be a good solution.

Senator McIntyre. Do you agree with that, Mr. Perry?

Mr. Perry. We feel there's no need for legislation but we find full grandfathering acceptable.

Senator McIntyre. I understand that Congressman Rees introduced an amendment which would have revised section 8 to eliminate the automatic requirement that companies such as yours terminate their securities activities by 1985. Do you consider the Rees amendment to be a satisfactory solution, Mr. Perry?

Mr. Perry. I might say for the benefit of the record that we did consult with Mr. Rees on several occasions during the consideration by the House of the bill and we welcomed his efforts to find a formulation which would be acceptable. However, his amendment is constructed in a way which we find it extremely difficult to operate because it requires a review about every 3 years and it would introduce an element of uncertainty which we think would make it impossible for a firm such as ours to offer the highest most professional kind of service in the industry. We have made an extremely conscientious effort to recruit outstanding people from the industry. Many have come from excellent and promising careers and from well-established firms, and they would find it most difficult, I think, to agree to con-

tinue to operate with us if they knew every 3 years we had to have our charter renewed. I think it would be difficult for us to hold many of the people we have and it would be extremely difficult for us to recruit well qualified, highly professional people when we do have turnover among our existing staff.

Senator McINTYRE. Do you generally agree with that, Mr. Schmidt-Scheuber?

Mr. SCHMIDT-SCHEUBER. Yes, I do.

Senator McINTYRE. Mr. Perry, you have a suggestion in your statement that the Federal Reserve might be given guidelines by which to monitor securities operations with a view toward promoting competition. Does this in effect suggest support for the Rees-Murphy amendment which was offered on the House floor?

Mr. PERRY. No, sir. I had in mind something somewhat different. It would be for the Federal Reserve to adopt appropriate regulations which would insure the present separation of the commercial and investment banking activities which in fact does exist now. It would seem to me the bill was intended to minimize the effect of possible unfair competition because of the presence of both commercial banking and investment banking activities. So what we had in mind more were guidelines and steps and procedures which would insure the complete separation of those two functions.

We would be very happy to work with the Federal Reserve in trying to develop such guidelines.

Senator McINTYRE. Mr. Ackerman, Mr. Tobin and Mr. Dowd, do you agree that section 8 as presently written will put securities affiliates of foreign banks out of business?

Mr. ACKERMAN. Yes, sir.

Mr. TOBIN. Yes, sir.

Mr. DOWD. For all intents and purposes, their incentives would be so drastically reduced that if I were running one, I would fold up my tent and go home, under the bill as written.

Senator McINTYRE. Mr. Schmidt-Scheuber, you say in your statement that the customers of ABD's four shareholders are more willing to invest in U.S. securities because they can go through their own bank affiliates. Why wouldn't they be just as willing to buy U.S. securities from their local banker if the bank had to use a U.S. broker-dealer to execute the order?

Mr. SCHMIDT-SCHEUBER. First, we're talking about shareholders all over Germany. If you're talking about a little town in Bavaria, I'm sure the problems would be much less existing if you could go into one of the regional bank offices and get advice on what kind of stock to buy. And with the bank and broker combined together our customers in Europe only pay one commission.

Senator McINTYRE. Mr. Dowd, Mr. Tobin and Mr. Ackerman, can you please assess for this subcommittee the impact of the SEC's recent ruling regarding access of securities affiliates of foreign banks to the major stock exchanges and how is that development relevant to this legislation?

Mr. DOWD. It's something that has not been unexpected, particularly with the passage of the Securities Act amendments of last year, and I would suspect that even ABD, SoGen-Swiss and others will seek membership on the New York Stock Exchange. This would not

preclude them, however, from continuing, we would hope, their specialist activity in Boston, the same commitment with capital specialist market making and on Midwest and on Pacific Coast. It's a mixed blessing. I'm delighted to see that New York is supposed to stick its head out of the sand and recognize there are firms with capital they like but whose membership they do not like. But on the other hand, while they were prohibited from membership on the New York and American Stock Exchanges, obviously they did more business on the regionals. This is not to say that none of their business did not flow to the New York Stock Exchange for other reasons. It's a mixed blessing, but I do not see any adverse impact, provided that the bill as it's now written does not pass on the market making and international arbitrage activities and their consequent benefits to the regionals.

Senator McIntyre. Do you agree, Mr. Tobin?

Mr. Tobin. I would agree substantially with what Mr. Dowd said. One other aspect of the decision, I think is worth mentioning, namely that it's the first tangible demonstration of an interpretation on the part of the SEC of the 1975 amendments regarding access to the U.S. securities markets.

Senator McIntyre. Do you care to comment, Mr. Ackerman?

Mr. Ackerman. Yes, sir. I think this is simply another example of what will be the adoption by the New York Stock Exchange of innovations that have been developed on the regional exchanges.

Senator McIntyre. Senator Stevenson, would you like to inquire?

Senator Stevenson. Mr. Chairman, I think the witnesses have made their positions clear. I don't have questions, but I would make one observation.

I have a feeling that these witnesses are basing their recommendations to us on political considerations and they are not politicians. My observation is that the political climate in the United States is today, from your standpoint, probably much more favorable than it would be tomorrow and next year. That, Mr. Chairman, is my observation.

Senator McIntyre. Thank you, Senator.

Under the Securities Act Amendments of 1975, the SEC is pushing the securities industry toward a national market system. What do you expect the role of the regional exchanges to be in a national market system and how would this bill, H.R. 13876, affect you?

Mr. Ackerman. First, I would expect that the regional exchanges will play a much more important role as to proponents under a national market system as is presently contemplated, as I think all of us have testified this morning. Passage, however, of section 8 would severely reduce ability to compete effectively.

Mr. Dowd. I would agree because of the impact on specialist market making and the removal of that important capital source from the essential element of competition.

Mr. Tobin. I think, Mr. Chairman, you would find many, many different interpretations as to what are the essential elements of the national market system. As we understand it, and as we feel the legislation at least conceptually sets it forth, a national market system would involve a reasonably fair field of competition between the

regional exchanges and the New York Stock Exchange for the first time in the securities business.

Once the lines to competition are open, to be successful in that competition one must have competitors and that's where we come to the provisions of this bill. To the extent that some of the foreign members we have been talking about contribute to market making, for example, they will enhance the regionals' ability to operate effectively as contemplated under the 1975 amendments.

Senator McIntyre. Gentlemen, section 8 is ostensibly designed to redress a competitive imbalance which occurs from the fact that the affiliates of foreign banks are engaged in securities business while affiliates of U.S. banks may not engage in it. How do we assess this? Is there a competitive imbalance and how about over the next 10 years?

Mr. Dowd. Concededly, there is a competitive imbalance. I don't know the Chase Manhattan or First National City or First National Bank of Boston has ever had in its game plan to run a specialist operation on the floor of any exchange. Maybe it's just because it's been one of those activities that Glass-Steagal presumably prohibited from them, but the fact is that the foreigners did supply the capital, do run the risk, and have on balance taken the risk in running specialist activities and engaging in international arbitrage, neither of the activities the domestic banks have seen fit to press for.

So I would, in answer to your question, say, yes, there is a competitive advantage, if you want to call it that, a competitive runup, if you will, for foreign banks; but these are the functions frankly that many foreign banks have run traditionally in their countries of origin. The exchanges in Europe, for example in Germany in particular, the banks are the only members and these are day-to-day bread-and-butter functions for banks in their capacity as worldwide bankers.

Senator McIntyre. How do you assess this now 10 years down the road?

Mr. Dowd. Because of our industry constantly needing new capital and new sources of capital, properly drawn guidelines, perhaps an updated Glass-Steagal should delineate whether domestic banks ought to be permitted to make markets and commit capital in specialist activities. I'm not saying yes or no. I admit that there is the distinction between a domestic and foreign bank and maybe a reexamination of Glass-Steagal would establish once and for all whether domestic banks should be permitted into this activity.

Senator McIntyre. Mr. Tobin, Mr. Dowd says there is a competitive disadvantage. How do you assess 10 years down the road?

Mr. Tobin. Maybe in some respects there is a competitive imbalance. I think you've got to go behind the question of immediate competitive imbalance. In other words, in Europe, for example, the bankers are the brokers. In this country a rather severe delimitation has taken place as to what traditionally has been looked upon as appropriate banking activities. Now I don't consider myself expert enough to say whether the European mode is correct and ours is wrong or ours is correct and the European mode is wrong. I think the question should be studied extensively and the legislation should await the outcome of those studies. I'm concerned that aside from very serious impacts on existing firms that got involved in our securities business

with good faith—aside from that, I'm concerned that the effects of section 8 will be to make more insular the American securities business and I think that goes counter to the desired long-term trend.

Mr. ACKERMAN. Mr. Chairman, I'd like to defer to my counsel, Mr. Richershauser, who's prepared to answer that question.

Mr. RICHERSHAUSER. We tried to address that question in our statement when we stated that we thought the Senate was uniquely equipped to make a decision which prefers the practical result to the theoretical. As a practical matter right now there's maybe an imbalance, but it's not an area that we understand the domestic banks are anxious to proceed in. The practical effect of eliminating that competitive imbalance at this time prior to the development of the Glass-Steagal studies and prior to the full development of a national market system seems to be to us inappropriate. It is a matter of timing, which is why we oppose section 8 at this time which frankly left us open when we have access to these studies to say that this might even be proper legislation.

Senator MCINTYRE. Would you care to comment, Mr. Perry?

Mr. PERRY. Yes, I would, We are really not aware that the U.S. banks feel they are at a competitive disadvantage. The people who seem to be supporting the House bill the way it's written are largely members of the securities industry who perhaps do feel that we are offering a kind of competition to them.

I might make two other comments. One is that our shareholder Credit Suisse did not come to the marketplace because they looked and said, "Oh, City Bank can't do this or Chase Manhattan can't do this or Harris Trust can't do this." They came here because they felt a need to better serve their clients in Europe and Switzerland, where they were accustomed to providing both the commercial banking service and custodial services. That was their interest in coming into the market, not because they were more competitive with the big U.S. banks. Over the years we feel we have, as I say, brought our capability in the investment banking field and we are offering competition, but it's competition in the securities industry.

Finally, if Credit Suisse really wished to become competitive with the big banks and get into retail operations, which is really the source of the vast amounts of the accounts of the Bank of America and City Bank, and so forth, then they would not be permitted because of the various other aspects of U.S. law. They could not really compete in the retail market without taking steps to bring them under the Glass-Steagal market.

Senator MCINTYRE. Mr. Schmidt-Scheuber?

Mr. SCHMIDT-SCHEUBER. I would defer to my counsel.

Mr. MORIN. I think the problem arises from the dual nature of the banking business in Europe. That is, they are banks on one hand and brokers on the other. If we view these foreign members as subsidiaries of foreign brokers we don't really have a problem. I suppose there is a potential in the future if the foreign brokers here in the United States are performing activities which in combination with their foreign parents would present the situation that caused the passage of the Glass-Steagal in the first place there would be time for alarm and I

would agree that perhaps we are premature in considering that now before determining whether that will ever happen.

Senator McINTYRE. I want to thank all of you, gentlemen. It's very important to get the views of our stock exchanges throughout the country and also some of our principal foreign affiliates. Thank you all very much for your testimony this morning.

We call as our next witnesses a panel consisting of Dr. Wolfgang Jahn, member of the board, Commerzbank, A.G., Duesseldorf, representing the EEC Banking Federation, and Mr. Paul Hollos, president, Institute of Foreign Bankers, and Mr. Stewart L. Pittman, counsel. Dr. Jahn, will you introduce those who are accompanying you for the record, please?

STATEMENT OF DR. WOLFGANG JAHN, MEMBER OF THE BOARD, COMMERZBANK, A.G., DUESSELDORF, REPRESENTING EEC BANKING FEDERATION, ACCOMPANIED BY GEORGES SMOLARSKI, THEODOR HEINSIUS, PHILLIPE MARCILHACY, PAUL FABRE, AND ALBERT DORMANNS

Dr. JAHN. Mr. Chairman, I am Wolfgang Jahn, a member of the board of management, that is the top management, of the Commerzbank, a major German bank. With me today are Mr. Georges Smolarski, a member of the general management committee of the Credit Lyonnais, a major French bank; Dr. Theodor Heinsius, general counsel of the Dresdner Bank, another major German bank; Mr. Paul Fabre, head of international relations for the Association of French Banks; Mr. Phillippe Marcilhacy, assistant general counsel of Compagnie Financiere de Suez; and Dr. Albert Dormanns, head of the international division of the Association of German Banks. We have the honor to represent the European Economic Community Banking Federation, which has as its members the banks of all nine member countries in the Common Market.

For me it is a pleasure to return to Washington where some 20-years ago I received my basic training in international finance as a staff member of the World Bank.

My associates and I appear before this subcommittee to express the deep concern of the European banking community about the House bill called the International Banking Act of 1976. In this regard, I believe it is most important that we dispel any erroneous impression that may exist that there is not great concern in Europe over the proposed legislation. To the contrary, particularly since the passage of the House bill, there has been increasing distress. There are perhaps two reasons why a misimpression could have been created.

First; Would be the extreme care and courtesy called for when nationals of one country comment on the laws of another. Such a frame of mind leads to understatement—and understatements may be easily misunderstood.

Second: Are the great difficulties and complexities involved in this bill—it has taken European bankers a long time to appreciate the serious problems buried in the bill's technical language.

Before proceeding further, let me say, Mr. Chairman, that we have seen the excellent statement prepared for you by the Institute of

Foreign Bankers and we all support it wholeheartedly. In view of the analysis by the Institute of Foreign Bankers covering principally questions relating to our commercial banking operations in the United States, we will concentrate on the very serious problems raised by section 8 of the bill on nonbanking activities. Specifically, we will focus on the problems of our investment banking and securities affiliates in the United States and the problems posed by the investments of foreign banks in industrial and commercial companies.

With your permission, Mr. Chairman, I would suggest that my friend and colleague, Mr. Smolarski, will first comment on investment and securities issues.

STATEMENT OF GEORGES SMOLARSKI, MEMBER OF THE GENERAL MANAGEMENT COMMITTEE OF THE CREDIT LYONNAIS

Mr. SMOLARSKI. Mr. Chairman, the investment banking and securities affiliates of European banks have played a small but constructive role in the U.S. capital markets to which they have introduced new capital resources and healthy competition for underwriting, trading, and market making. They have also contributed to the development of the future central securities market through the brokerage volume and liquidity they have brought to U.S. securities markets, particularly the regional exchanges.

Investment banking and securities affiliates of European banks have the status of SEC registered broker/dealers and are under regulatory supervision not only of the SEC but also the NASD and the stock exchanges of which they are members. In the 8 years during which most of these firms have been in existence, neither we nor any of the experts who have testified before you have become aware of any regulatory problems that would necessitate corrective legislation.

Notwithstanding the above considerations, the House bill would force the dissolution of foreign bank-owned securities firms and prevent Continental European institutions from competing in U.S. securities markets. While the bill purports to legislate equal national treatment, in fact it would legislate unequal treatment. This is due largely to the difference between the U.S. banking system, with separate commercial banking and securities entities, and the multifunction banking system in Europe. In France, for example, our few major banks which handle both the commercial and investment banking business must compete not only with 14 major U.S. banks established in France, but also with more than 20 U.S. securities firms, to say nothing of those U.S. banks and brokers doing business in France although they have no offices there.

The provisions contained in section 8 of the House bill which would allow foreign securities affiliates to underwrite, but not distribute or deal in securities in the United States after 1985, are unacceptable. This partial grandfathering would permit foreign banks to take the risks of underwriting, but would severely limit their ability to resell underwritten securities. Without the freedom to distribute securities in the U.S. market for which an issue is tailored and the underwriting risk calculated, as well as the ability to act as a dealer in secondary markets in the United States, it is impractical, even with important

European placement capabilities for some issues, to continue as an active underwriter in your market.

We would be crippled immediately upon passage of such a bill because we would be unable to offer a meaningful future to our valued employees or to our customers. In short, passage of the House bill would not be slow, but quick, death for our securities affiliates as viable entities. Limited grandfathering is no grandfathering.

Thank you, Mr. Chairman. I would now turn the presentation back to Dr. Jahn.

Dr. JAHN. Mr. Chairman, as I indicated before, we have another serious problem with section 8 of the House bill which, if it were law, would prevent many European companies from starting industrial plants and commercial investments in the United States. This problem results from the fact that, for various historical and economic reasons, many foreign banks have interests in industrial and commercial comanies in their own country. These companies would be precluded from making new capital investment in the United States. Also, in the case of foreign banks operating in the United States which have interests in nonbanking companies already operating here, such banks would either have to terminate their U.S. activities or divest their holdings. Even permanent grandfathering would not avert these adverse consequences because grandfathering applies only to the status quo. The consequence of section 8 would be completely contrary to the efforts to attract European investment to this country. It would also create a serious problem for the balance of international competition and investment as U.S. companies are free to acquire and develop industrial investments in Europe.

The House bill would also produce the serious result that U.S. law would in effect apply to European banks and corporations. This occurs, of course, if a European bank that does business in the United States wishes to invest in a European company that does business here. Such an investment would, for all practical purposes, be prohibited by the House bill.

Particularly because the U.S. Senate is the branch of Congress with the constitutional responsibility for treaties, the subcommittee's attention should be also invited to the various treaties of friendship, commerce, and navigation between the United States and other countries. These treaties provide that each party must treat enterprises controlled by nationals of the other party in a manner "no less favorable than that afforded" similar enterprises controlled by its own nationals. The House bill seems inconsistent with this language and thus the matter should be carefully considered.

We feel very strongly that European banks should continue to be permitted to operate in the United States both in the commercial and investment banking fields in the manner in which such activities are now carried on. The European banks that have entered the United States in commercial banking, investment banking, or both, did so in good faith. Thus it is unfair and unjustified to destroy their interests.

By way of conclusion, let me say this: For the last 30 years, American and European economic policies have followed liberal principles to our mutual benefit. The development of free credit and capital markets would be severely set back by the House bill. Thank you, Mr. Chairman.

[Complete statement follows:]

August 31, 1976

Statement of Dr. Wolfgang Jahn
and
Mr. Georges Smolarski
on behalf of
European Economic Community Banking Federation
before the
Subcommittee on Financial Institutions
Committee on Banking, Housing and Urban Affairs
United States Senate

Dr. Jahn

Mr. Chairman, members of the Subcommittee, I am Wolfgang Jahn, a member of the Board of Management, that is the top management, of the Commerzbank, a major German bank. With me today are Mr. Georges Smolarski, a member of the General Management Committee of the Credit Lyonnais, a major French bank, Dr. Theodor Heinsius, General Counsel of the Dresdner Bank, another major German bank, Mr. Paul Fabre, head of international relations for the Association of French Banks, Mr. Philippe Marcilhacy, Assistant General Counsel of Compagnie Financiere de Suez, and Dr. Albert Dormanns, head of the international division of the Association of German Banks. We have the honor to represent the European Economic Community Banking Federation, which has as its members the banks of all nine member countries in the Common Market.

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our investment banking and securities affiliates in the United States and the problems posed by the investments of foreign banks in industrial and commercial companies.

My friend and colleague, Georges Smolarski, will comment on investment and securities issues.

Mr. Smolarski

Mr. Chairman, members of the Subcommittee, the investment banking and securities affiliates of European banks have played a small but constructive role in the United States capital markets to which they have introduced new capital resources and healthy competition for underwriting, trading and market making. They have also contributed to the development of the future central securities market through the brokerage volume and liquidity they have brought to United States securities markets, particularly the regional exchanges.

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as a dealer in secondary markets in the United States, it is impractical, even with important European placement capabilities for some issues, to continue as an active underwriter in your market.

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Thank you Mr. Chairman, I would now turn the presentation back to Dr. Jahn.

Dr. Jahn (Continuing)

Mr. Chairman, we have another serious problem with Section 8 of the House bill which, if it were law, would prevent many European companies from starting industrial plants and commercial investments in the United States. This problem results from the fact that, for various historical and economic reasons, many foreign banks have interests in industrial and commercial companies in their own country. These companies would be precluded from making new capital investment in the United States. Also, in the case of foreign banks operating in the United States which have interests in non-banking companies already operating here,

such banks would either have to terminate their United States activities or divest their holdings. Even permanent grandfathering would not avert these adverse consequences because grandfathering applies only to the status quo. The consequence of Section 8 would be completely contrary to the efforts to attract European investment to this country. It would also create a serious problem for the balance of international competition and investment as United States companies are free to acquire and develop industrial investments in Europe.

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By way of conclusion, let me say this: For the last thirty years, American and European economic policies have followed liberal principles to our mutual benefit. The development of free credit and capital markets would be severely set back by the House bill. Thank you, Mr. Chairman.

FOR RELEASE NOT BEFORE AUGUST 31, 1976, 3 P.M.

EVIDENCE PRESENTED BY

THE E.E.C. BANKING FEDERATION

TO

THE SUB-COMMITTEE ON FINANCIAL INSTITUTIONS
OF THE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
OF THE UNITED STATES SENATE

1. The Sub-Committee on Financial Institutions of the Committee on Banking, Housing and Urban Affairs of the United States Senate was good enough to receive at their hearings in January last on the Foreign Bank Act of 1975, a statement of evidence from the Rt.Hon. Lord O'Brien of Lothbury, G.B.E., P.C., on behalf of the E.E.C. Banking Federation.

2. The E.E.C. Banking Federation are aware of, and appreciate, the changes which have been made to the International Banking Act of 1976 during its consideration by the House of Representatives. There remain inevitably provisions which will present difficulties to all foreign banks operating in the United States but there are two major problems remaining which are of considerable concern to European banks. These problems were referred to in the statement presented earlier this year to the Sub-Committee, but it is felt that they are of such importance that they should be re-emphasised at the time of the hearing to take place on Tuesday, 31st August 1976.

3. This paper, therefore, confines itself to comments on Section 8 of the Act. They are offered as a constructive contribution in the belief that some amendment to alleviate the problems outlined would not conflict with the spirit of the legislation now under consideration.

COMMENTS ON SECTION 8

4. Section 8 of the International Banking Act of 1976 applies the restrictions of the Bank Holding Company Act of 1956/1970 to the non-banking operations in the United States of foreign banks which control branches, agencies or commercial lending companies in the United States. It requires that they terminate all non-banking activities as of December 31, 1985, except that existing industrial participations may be maintained under certain conditions and that foreign banks which have subsidiaries or affiliates engaged in underwriting may continue to underwrite after that date if they do not sell securities in the United States. To qualify to continue to underwrite, such subsidiaries or affiliates must have been established by December 3, 1974, or acquired pursuant to a contract entered into before or on that date.

5. We respectfully submit the following comments on the effect the proposed Section 8 of the International Banking Act of 1976 would have on the non-banking activities and the securities operations of European banks.

I. Industrial participations of foreign banks and foreign Bank Holding Companies

6. We generally have no objection to the application of the Bank Holding Company Act to the extent that it limits associations between U.S. subsidiaries or affiliates of foreign banks and U.S. subsidiaries or affiliates of

foreign firms. A problem would arise only if Section 8 would impose the provisions of the Bank Holding Company Act on the associations outside the United States which exist between foreign banks and foreign firms and which are established in compliance with the legislation in their own country.

7. As it is worded, Section 8 would definitely preclude the operation in the American market of:

   a) all the foreign banks which, in their home country and in conformity with their country's legislation, retain an industrial ownership in non-banking firms established, or to be established, in the United States or are controlled by holding companies also controlling such firms;

   b) all non-banking firms which, in their home country and in conformity with their country's legislation, are controlled by a bank which has a unit in the United States, or by a holding company also controlling such a bank.

8. In other words, if Section 8 were not modified, even with a permanent grandfathering, the only foreign banks or firms which could maintain or establish units in the United States would be those banks or firms from countries which have the same legislation as the United States - as far as industrial connections are concerned - or banks or firms from other countries having different legislation but which voluntarily forego the benefits of such legislation.

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9. In the countries where they are authorized, such connections exist generally between major banks and major firms which, owing to their size, are among those which may wish and which have the means to establish units in the United States. These banks and firms are therefore faced with the following dilemma: They must

- either waive their national structures in order to establish units in the United States - a harsh requirement and generally highly impractical;
- or, while maintaining their domestic structures, give up either for the bank or for all the industrial firms belonging to the group - any prospect of establishing units in the United States.

10. The consequences mentioned above would, of course, immediately affect those foreign banks already established in the United States.

11. Therefore, the provisions of Section 8 have to a large extent extra-territorial implications which consequently create a very serious conflict between the American legislation and that of a certain number of European countries.

12. European banks consider that such an extra-territorial application of the Bank Holding Company Act is neither fair nor necessary and that it gives rise to the most serious difficulties.

13. It is generally accepted that any foreign bank unit must comply with the host country's legislation for all its operations in that country. On the other hand, in most countries and especially in Europe, the banking legislation applicable to foreign banks generally respects the parent's legal status and accepts that this status is drawn from different legal principles. These countries are aware that such differences at the parent's level may have certain consequences for the subsidiaries or branches established in their territory. They however consider that, provided the banks comply witn the host country legislation for their operations in that country, the differences existing between the legal status of domestic banks and that of the foreign bank's parent cannot seriously affect the operations of the foreign banking unit in the host country and that it is therefore unnecessary to take them into consideration.

14. Compliance of the foreign banking unit's operations in the host country with the host country's legislation, together with the host country's non-interference with the domestic legislation which governs the foreign bank's parent, are the general foundations on which all international banking networks have been created and have developed for the common good of all the countries concerned. Of course, any country may deny a foreign bank access to its territory if it believes - after due review of the specific features of the bank - that it is not trustworthy. But to deny a bank access to a country on the grounds that it has at home a

different legal status whose consequences are mainly felt in another country would be - in relation to the accepted custom - a quite new development and a most dangerous precedent.

15. Such a precedent should also be avoided because it does not seem to be, in the specific case of non-banking connections, a practical solution to the problem of relationships between banks and their industrial clients.

16. First of all, it is well-known that any industrial firm established in a foreign country tends to look to the bank it uses in its home country, if this bank is also present in the same foreign country; or, if such is not the case, to another bank from its home country. It is also well-known that this trend rarely results in the establishment of exclusive relationships, because the foreign firm nearly always requires the services of the host country's banking system. The fact that the foreign bank and firm belong to the same financial group does not give rise, in the foreign country where both are established, to any substantial difference from this pattern.

17. Secondly, why give more importance to the legal relationships between the banks and firms of a foreign group than to the financial relationships that exist between any industrial firm and a bank? Such financial relationships are often more important since the bank, if it were to withdraw its financial support, could place the firm in a difficult position.

18. Thus, the provisions of Section 8 which deal with non-banking activities do not necessarily prevent or put an end to the practical problems caused by financial and personal relationships between banks and their industrial clients. They at best further one method of enforcing principles, which the United States is legitimately devoted to, but which are not acknowledged, at least to the same extent, in many other countries of the free world.

19. Certainly, a foreign bank holding company created in the United States should abide by the methods used in the United States. But in the United States, the coexistence of a bank and a firm whose connections are established in a foreign country which legally authorises them reflects neither a violation, nor even an ignorance of the principles of American legislation. In so far as it does not give rise to disturbing effects in practice - and we have seen that such is not the case - it only adds to all the specifically national characteristics that the bank and firm retain in the host country, another feature whose importance should not be overestimated.

20. The extensive application of the Bank Holding Company Act to industrial ownership that foreign banks may retain does not therefore seem necessary either in order to protect the principles of American legislation or to prevent situations likely to threaten the interests of the United States.

21. Conversely, such an extensive application would have extremely regrettable consequences on the development of the economic relationships between American and Europe. As already pointed out, the banks and the firms which would be affected by Section 8 are among the major banks and industrial firms in several European countries. Since they generally cannot contemplate waiving their domestic structures in their own country they would be unable to establish or to carry on their activities in the United States, which is precisely the country in the world where they have the strongest incentives to become established.

22. Taking into consideration the importance of the American market, it is unnecessary to emphasize the important and serious distortions - as far as competition is concerned - which would arise at the international level between the banks or the firms which would not have access to this market and those which would. In this way, the implications of Section 8 are going much further than banking policy; they are also dealing with foreign investment policy as a whole. In fact, it is the frail balance presently existing in international competition, especially between the United States and Europe, which may be gradually but deeply affected.

23. The European banks are convinced that the Congress of the United States does not mean to go so far. Consequently they respectfully ask Congress to reconsider - after a more exhaustive review of the problem - the provisions of Section 8.

24. Even permanent grandfathering of the prior situations does not solve the problem. The only fair and convenient solution would be to apply the Bank Holding Company Act exclusively to the legal relationships established in the United States and not to take into consideration those relationships established outside the United States between foreign banks and non-banking firms in accordance with their domestic legislation.

25. The European banks are convinced that modifying Section 8 to the extent referred to above will not be prejudicial to the interests of American banks or to the American economy as a whole and that it will avoid important and serious problems in the economic relationships between America and Europe.

II. Securities operations

26. Our comments concerning the application of the Bank Holding Company Act to foreign banks which have in the United States both a commercial bank and a unit engaged in securities operations are similar to those comments dealing with other non-banking activities expressed above.

27. As a practical matter, the consequences of such an application, though limited to banking and accompanied by a nine year phasing-out period, would also raise problems for foreign banks far out of proportion with the practical difficulties sought to be addressed by this legislation.

28. The Glass-Steagall Act, as summed up by Congressman Rees before the House of Representatives, was aimed at keeping American commercial banks' resources for the purposes within their own sphere and at avoiding their being used - through subsidiaries - to investment in securities likely to prove too risky an investment. Many other countries, especially those in Europe, were also concerned with these problems. Most of these countries adopted less sweeping or different measures because they were better adapted to their own domestic situation.

29. It is fair that the American legislation should not allow the American unit of a foreign bank to perform both commercial banking and investment banking activities. This would indeed be a formal violation of U.S. law. But inversely, if the banking units are quite separate, as in the case of two subsidiaries or of a subsidiary and a branch, and if these units have no inter-relationship whatsoever other than those existing outside the United States at the foreign bank's or a foreign holding company's level, there does not seem to be any formal violation of the Glass-Steagall Act, at least according to the accepted custom applied in Europe to a problem of this nature. It would be sufficient to establish clearly the total separation of the two units. Indeed, with the full agreement of the competent American authorities, a number of foreign banks have already established securities affiliates in the United States.

30. In order to justify the application of the Bank Holding Company Act abroad, it has also been argued that the foreign bank, with a commercial bank and a security affiliate at its disposal in the United States, would have a competitive advantage in the American market over other American banks.

31. This assertion does not appear to be justified. It is not the foreign bank which is operating in the United States, but its two banking units; both units are completely separate. The unit with the status of a commercial bank competes with other American commercial banks; the foreign investment banking unit competes directly with American investment banks. Granted, some customers of one unit may tend to also become customers of the other, but obviously this cannot go very far.

32. On the other hand, as American legislation is more restictive than most European legislation in this regard, the rule of equal treatment applied in the same way on both sides of the Atlantic does not guarantee, as it should, a fair and equal reciprocity.

33. If investment and commercial banking were as separate in Europe as they are in the United States, both European Commercial and investment banks could establish units in the United States without violating the laws of the United States. Reciprocity would be complete because European

countries permit American investment and commercial banks to operate in their countries. But due to different laws in European countries, securities operations are generally performed by banks which have a commercial banking activity. It would therefore be difficult for them to cease commercial banking operations in the United States so that they could establish investment banking operations there. It they could not establish or maintain investment activities in the United States, the U.S. investment banking market would be closed to many banking units representing an important section of European investment banking, while European countries would still be open to American investment banking. After all, foreign banks would be prohibited from doing in the United States what U.S. banks are permitted to do in Europe. Therefore, the reciprocity which has hitherto existed would be seriously impaired.

34. As a matter of fact, by restricting in such a way the U.S. investment banking market for foreign banks, one would practically reduce competition in that market, whereas the constant trend of the U.S. Legislation - such as the 1975 securities acts amendments - is to maximize competition.

35. Neither the phasing out period provided for in Section 8, nor the possibilities it allows for certain activities after December 31, 1985, seem satisfactory.

36. In the first place, the operations which will continue to be authorized will not produce enough profits for the units concerned. These banking units would immediately be faced with the problems of a bank which is known - by staff and customers - as having no prospects whatsoever in the future. Therefore even these operations will disappear. The question for European banks will not be to terminate some activities, but to close their units long before the deadline. In fact, they will have to close as quickly as possible in order to avoid losses in addition to those inevitably arising from divesture.

37. Therefore, the measures provided for cannot in any way be presented as achieving the results of a real grandfather clause. While the Congressmen who passed the bill certainly meant to achieve this aim, the actual consequence of Section 8 will be a harsh dismissal. The prejudice caused to the banks concerned would be most unfair, all the more because they started their activities in the United States in good faith and in full compliance with American law.

38. As far as both securities operations and industrial ownership are concerned, the solution which would best reconcile the national principle of equality of treatment and the international principle of reciprocity, would be to adhere, for foreign banks, to a purely territorial interpretation of the Bank Holding Company Act.

39. European banks are convinced that their present investment banking activities do not represent an excessive share of the American market. They are also convinced that by operating through separate units on the commercial banking and the investment banking markets they do not imperil either fair competition or the soundness of banking operations in the United States.

European Economic Community Banking Federation

MEMORANDUM

For the Record 7 September, 1976

Subject: 31 August, 1976, Hearings of the U.S. Senate Subcommittee on Financial Institutions of the Committee on Banking, Housing and Urban Affairs

During the testimony given by Dr. Wolfgang Jahn and Mr. Georges Smolarski at the captioned hearing, requests were made by Chairman McIntyre for written answers to certain questions.

The responses of the E.E.C. Banking Federation follow:

1. Is the Rees-Murphy amendment to H.R. 13876, offered on the floor of the House of Representatives on 29 July, 1976, acceptable to the E.E.C. Banking Federation?

We do not consider the Rees-Murphy amendment an acceptable solution to the problem created for securities affiliates of our members under the proposed legislation because it would leave the members in a state of continuing uncertainty.

2. Would the Stephens amendment, also proposed on the House floor, be an acceptable solution for European banks to the problem of multistate branching?

The Stephens amendment appears to solve the problem which the European banks have under the proposed legislation as regards multistate branching.

3. Do you find acceptable the proposals presented on 31 August, 1976, by the Federal Reserve Board?

We believe the amendments proposed by the Federal Reserve Board are insufficient. The amendments contain some elements improving the House bill, but, on the other hand, the proposals contain restrictions that would pose many substantial and new problems.

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4. What is the opinion of the E.E.C. Banking Federation on the F.D.I.C. proposals set forth in its letter of 26 August, 1976?

We endorse the proposals in the F.D.I.C. letter of 26 August, 1976.

* * * *

In addition, we should like to comment upon certain other specific matters:

A. The proposals of the Treasury Department submitted on 31 August, 1976, as far as they go, are substantial improvements to the House bill.

B. The E.E.C. banking federation wishes to emphasize that, although permanent grandfathering of securities affiliates is an obvious improvement over the provisions of the House bill, it does not satisfy our basic concerns.

In response to the invitation to present our thoughts regarding the concepts of equal treatment, uniform national treatment and mutual non-discrimination, we believe that the Chairman has discerned a crucial aspect of the problem before the subcommittee by calling those concepts "elusive." It is noteworthy that during the debates on the House floor both the proponents and the opponents of the House bill agreed on the same objective, to establish equality between foreign and domestic banks. The reason that no agreement has been reached on the means to achieve this objective is that it is difficult to create equality for inherently different institutions. The continental European banking system is inherently different from that of the United States, not only because European banks are both commercial and investment banks, but also because the legal nature of their corporate structures and their appointed roles in their countries' economies are different. It is for that reason that uniform national treatment, for which it should be noted H.R. 13876 does not provide, can lead to unequal and discriminatory treatment. One illustration has been mentioned in the hearings: if subsidiaries of continental European banks are barred from the underwriting business in the United States, all continental Europeans are so barred, for only banks are in that business in continental Europe.

The problematical nature of equal treatment has not yet been fully analyzed or understood, and that is a

principal reason why the enactment of H.R. 13876, or any similar bill, would be premature, and a leap into the dark. As Congressman Wylie said on the House floor in discussing the complexities of this legislation:

> "No one can predict with certainty what will happen when this bill becomes law."

In conclusion, the E.E.C. Banking Federation wishes to state its deep concern towards any approach that seeks at this late date in the Congressional session to use the basic structure of the House bill and through amendment attempts to correct certain obvious deficiencies. Substantial additional consideration of the potential ramifications of the House bill in this technical and complex area should be undertaken.

Senator McIntyre. Thank you.
Now, Mr. Hollos.

STATEMENT OF PAUL E. HOLLOS, PRESIDENT, INSTITUTE OF FOREIGN BANKERS

Mr. Hollos. I am Paul Hollos, president of the Institute of Foreign Bankers, which has over 125 members composed of the foreign bank offices in the United States from over 32 countries of all parties of the world, accounting for the vast majority of foreign banking in the United States.

Thank you for this opportunity to appear before you.

May I request that our written statement be made part of the record.

The Institute of Foreign Bankers testimony and statement last January, addressing S. 958, proposed by the Federal Reserve Board (which we are calling the Fed bill), reflect the current views of the Institute on the key provisions of the House bill, most of which are very similar to their counterpart provisions in the Fed bill.

Our view continues to be that the House bill as well as the Fed bill, are unnecessary and have the effect of aggravating inequality of treatment of foreign and domestic banks rather than the stated purpose of placing them on an equal footing.

We will not repeat all our reasons which are in your January hearing transcript, but we are relying heavily on the testimony we have given you.

We wish to suggest that this bill is at best premature. Its essential features may become unnecessary depending on the results of domestic bank reforms under consideration by Congress.

The most important of these issues are interstate branching, securities activities, and mandatory membership in the Federal Reserve System.

The House bill illustrates the tendency of regulatory activity to spawn additional regulation, proliferating paperwork and administrative burdens to regulators and regulated alike, all adding to costs ultimately borne by the public.

There has been little resistance in the House to the temptation to impose on State organized foreign banking operations a superstructure of new Federal regulations, rather than to identify and correct any specific deficiencies of existing law.

If the domestic banking industry is subject to a "patchwork" (to use Governor Mitchell's word) of burdensome regulation, corrective bank reform legislation may perhaps be needed.

But reforming this diversity of regulatory treatment should not begin with the imposition of new and unnecessary regulation burdens on foreign banks, merely because it is politically the path of least resistance.

Attention should first be given to reducing or equalizing regulatory burdens on domestic banks and perhaps also on their nondepository domestic competitors.

The Institute's comments in your January hearing record addressing this subcommittee's interesting two-page outline of a possible response

to the Fed bill suggests that a proposal stripped down to demonstrated needs for change could be accomplished without legislation at this time.

Our suggestion was that this committee issue a report urging the FRB, the FDIC and those key State bank supervisors who regulate foreign banks to undertake steps to satisfy any essential requirements of Federal banking policy by improved coordination.

We understand that some State bank supervisors are already giving attention to the possibility of taking the initiative to improve Federal-State cooperation in foreign bank regulation.

This subcommittee should have the opportunity to know more about this potential before recommending a bill.

The success of this complex bill on the floor of the House appears to have been largely based on representation by its sponsors, that the bill reflected a wide consensus following extensive discussions and negotiation among those concerned.

However, the key multistate branching provision narrowly escaped defeat by the Stephens amendment in the House.

We think it important that this consensus misconception not be carried over to these hearings. This is not a bill of consensus but one of controversy, and the controversy is not limited to the normal differences between regulators and those regulated.

It appears from the January hearing record that the State supervisors have vigorously opposed the House bill. FDIC has told this subcommittee that mandatory membership in both the Federal Reserve System and in FDIC is discriminatory. The Comptroller of the Currency has advised your subcommittee to go slow and not to freeze foreign banking in only three States.

The Treasury Department has advised Mr. St Germain against authorizing discriminatory application of Federal reserve requirements and against Federal screening of applications for new licenses or charters.

All Federal agencies strongly support grandfathering without the discriminatory restriction in the House bill.

The domestic banking industry has not shown widespread interest in this bill. The New York Clearing House Association represents 11 large international domestic banks accounting for most of the U.S.-owned overseas banking activities and most of the domestic competition of foreign banks, they have vigorously opposed the Fed and House bills.

Presumably they are peculiarly sensitive to the potential of this legislation for upsetting the stability of the worldwide regulatory climate for international banking.

The only other domestic banking association to address your subcommittee on the Fed bill last January was the Bankers' Association for Foreign Trade. It opposed as discriminatory mandatory membership in both the Federal Reserve System, including Federal reserve requirements, and in FDIC.

It also testified that there are no present foreign bank abuses requiring legislative correction, that the two alleged advantages did not constitute "unfair competition" and the the domestic banks did not feel discriminated against.

In conclusion, the justification of equal treatment, without which this legislation could not have gotten off the ground, does not stand close scrutiny. The inherent diversity in U.S. banking laws is not called unfair competition as between domestic banks; to do so in the case of foreign banks shows a bias against foreignness.

May I call now on Mr. Steuart Pittman, our other witness with whom I share our allocated time?

STATEMENT OF STEUART L. PITTMAN, SHAW, PITTMAN, POTTS & TROWBRIDGE, WASHINGTON, D.C.

Mr. Pittman. I am Steuart Pittman of the Washington law firm of Shaw, Pittman, Potts & Trowbridge, representing the Institute of Foreign Bankers.

I will point out certain major difficulties posed by specific provisions of the House bill.

Multi-State branching is the threshold issue without which foreign bank legislation would probably never have reached the hearing stage.

Section 5 of the House bill gives equal treatment among banks priority over equal treatment among cities competing for the business which derives from international financial center status.

It would impose a Federal prohibition to block effectively State efforts to attract foreign bank branches to many important cities.

The recent success of Chicago in attracting several dozen foreign bank branches in about 2 years could not have occurred under the House or Fed bill.

New foreign bank activities in the United States would tend to be concentrated in the several largest money center cities to the detriment of other growing financial centers.

There are no public policy grounds on which the Federal Government should block such forward-looking and constructive civic and economic aspirations.

On the contrary, existing Federal law—section 3(d) of the Bank Holding Company Act—enables any State, explicitly by statute, to admit subsidiary banks owned by out-of-State banks, whether foreign or domestic.

Section 5 expressly continues this treatment of foreign bank subsidiaries but applies an inconsistent and unconditional ban on foreign bank branching in secondary States.

What then is the justification for section 5?

Protection for domestic banks, and it does not stand up.

The January hearing record establishes that the large domestic banks, which are the competitors of foreign banks, are far more active, by any count, in interstate wholesale banking than are foreign bank branches.

In comparison with foreign banks, these large U.S. banks have about 25 times the number of locations outside their home State in about 10 times the number of States.

The important point is that neither group of banks do any appreciable interstate retail deposit banking outside their home State.

Turning to section 6, surety bonds and asset pledges are a discriminatory substitute for mandatory Federal deposit insurance, which is also discriminatory.

Section 6 was sold in the House on the strange theory that the benefits of insurance should remain confined to FDIC members, but the cost should be equalized by imposing on foreign bank branches the costs of bonds or pledges which buy no benefits.

Depositor protection offers no better justification.

As FDIC has advised, the depositors of wholesale international banks do not need protection.

Furthermore, the States effectively assure the availability of assets for the protection of customers of foreign bank branches.

Section 7 is the heart of the expansion of the FRB jurisdiction over foreign banks. It drops all pretense of equal treatment.

Federal Reserve requirements, optional for domestic banks, become mandatory for foreign banking in the United States.

The FRB is empowered to impose higher reserve ratios on foreign than domestic banks and to subject credit balances and advances from the home offices to reserve requirements in the case of foreign but not domestic banks.

Section 7(d) enables the FRB to apply the wide range of member bank regulations to foreign bank nonmembers but not to domestic nonmembers.

All of those restrictions can be applied to nondepository agencies and investment companies owned by foreign banks but to no domestic nondepositor institutions.

How is this collection of discriminations justified?

First: Monetary policy is the only specific need alleged in the hearings for a greater Federal role in Foreign bank regulation.

This need has been merely asserted as self-evident, without factual support or argumentation about the monetary quantities involved or about the controversial question of the value of reserve requirements in controlling the money supply.

Second: The bill attempts to use a size distinction to overcome these obvious discriminations.

Even if size discrimination made good regulatory law, which it clearly does not, the logic fails for two reasons.

First: While the large domestic banks may all be members of the Federal Reserve System, this is their choice and they can withdraw if and when the benefits are outweighed by the burdens.

Second: Foreign bank branches, agencies, and investment companies are separate operations which must succeed independently of the home office or eventually be phased out as unprofitable investments.

Thus, if size is relevant, realistic comparisons with domestic banks should be made with the U.S. operations and should not include the overseas operations which, incidentally, are already subject to foreign reserve requirements and other foreign regulations.

Section 8, which applies nonbanking prohibitions, is important. But we hope you do not have an exaggerated idea of its importance from the time devoted to it today.

But Dr. Jahn and other witnesses are focusing on this subject, so I will save time by referring you to our views in the January transcript at pages 481 and 515 through 520.

We identify in our statement, starting at page 13, five major overlays of new Federal regulation of foreign banking, involving administration by all three Federal regulating agencies.

The conclusion is inescapable that equal treatment has been the rhetoric carrying this legislation as far as it has come but that the real thrust is indiscriminate federalization of foreign bank regulation which is effectively administered at present by three State banking administrations.

[Statement of the Institute of Foreign Bankers and a letter from Mr. Pittman enclosing a further statement follow:]

INSTITUTE OF FOREIGN BANKERS

COMMENTS ON H.R. 13876

TO THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

The Institute of Foreign Bankers, represented by its President, Paul E. Hollos, and its counsel, Steuart L. Pittman, are responding to the request of your Subcommittee for comments on H.R. 13876 recently passed by the House of Representatives (which we are calling the House bill). The 125 or more members of the Institute are the United States branches, agencies, subsidiaries, and representative offices of foreign banks, which together account for the vast majority of all foreign bank offices in the United States.

Our testimony and statement last January, addressing S. 958 proposed by the Federal Reserve Board (which we are calling the Fed bill), reflect the current views of the Institute on the key provisions of the House bill, most of which are very similar to their counterpart provisions in the Fed bill. To avoid repetition we will assume that these comments will be read with our January statement. In essence, our view continues to be that the House bill, as well as the Fed bill, are unnecessary and have the effect of aggravating inequality of treatment of foreign and domestic banks rather than the stated purpose of placing them on an equal footing. We will first explain this view in the context of the House bill as a whole and we will then discuss those particular defects which we consider to be the most serious.

1. __The House Bill is at Best Premature__

Before addressing the justification offered for the House bill, we wish to suggest that this bill is at best premature. Its essential features apply restrictions to foreign banks, which may become unnecessary depending on the results of domestic bank reforms under consideration by Congress. The most important of these issues are interstate branching, securities activities, and mandatory membership in the Federal Reserve System.

If this Subcommittee shares the growing interest in reducing, or at least checking, the expanding cost to the public of the tendency of regulatory activity to spawn additional regulation, proliferating paperwork and administrative burdens to regulators and regulated alike, the House bill should be viewed with caution. The temptation to impose on State organized foreign banking operations a superstructure of new Federal regulations, rather than to identify and correct any specific deficiencies of existing law, has had little apparent resistance in the House. If the domestic banking industry is subject to a "patchwork" (to use Governor Mitchell's word) of burdensome regulation, corrective bank reform legislation may perhaps be needed. But reforming this diversity of regulatory treatment should not begin with the imposition of new and unnecessary regulatory burdens on foreign banks, merely because it is politically the path of least resistance. Attention should first be given to reducing or equalizing regulatory burdens on domestic banks and perhaps also on their nondepository domestic competitors.

The Institute's comments in your January hearing record addressing this Subcommittee's interesting two-page outline of a possible response to the Fed bill suggests that a proposal stripped down to demonstrated needs for change could be accomplished without legislation at this time. Our suggestion was that this Committee issue a report urging the FRB, the FDIC and those key State bank supervisors who regulate foreign banks to undertake steps to satisfy any essential requirements of Federal banking policy by improved coordination. We understand that some State bank supervisors are already giving attention to the possibility of taking the initiative to improve Federal-State cooperation in foreign bank regulation. This Subcommittee should have the opportunity to know more about this potential before recommending a bill.

The Federal Reserve Board's reasons for urgency, expressed last January, have not materialized. Foreign banks have not been rushing into the United States in anticipation of new legislative restrictions during the several years since the Federal Reserve Board made its proposal. The spread of international banking has merely kept pace with world needs. The several financial centers in the United States, in competition with foreign financial centers, have fortunately continued to attract their share of expanding international banking. But there has been no abnormal influx, with the possible exception of the not unexpected response to Chicago's successful two-year promotion of its downtown Loop area for single wholesale branches of foreign banks.

Finally, legislation should await the results of your Committee's staff study of multinational banking which your recent Committee Report describes as addressing issues some of which are the key issues of the House bill and others are highly relevant to the House bill but are not addressed therein.

2. Support is Lacking

The success of this complex bill on the floor of the House appears to have been largely based on representations by its sponsors that the bill reflected a wide consensus following extensive discussion and negotiation among those concerned. Even so, the key multi-state branching provision narrowly escaped emasculation by the Stephens amendment in the House. We think it important that this consensus misconception not be carried over to these hearings. This is not a bill of consensus but one of controversy, and the controversy is not limited to the normal differences between regulators and those regulated.

Your Subcommittee's printed January hearing record (which we will cite as "Senate Tr.") is the most concise and comprehensive source on the subject of foreign bank regulation which has yet to appear. This excellent tool provides under one cover badly needed education on this subject, which we hope will have continuing attention from those interested in the subject both here and abroad. This record reveals the attitude of bank regulators and bank associations toward those issues which the Fed bill and the House bill have in common.

(a) Mandatory Federal Deposit Insurance

The State supervisors repeatedly say that it should be optional.

FDIC opposed mandatory Federal deposit insurance as unnecessary because of the wholesale and international nature of the business of foreign bank branches. Mr. Wille's statement went on to say (Senate Tr. p. 250):

> "We, therefore, believe that, if existing law stays as it is for domestic banks, both Federal Reserve membership and Federal deposit insurance should be made available to foreign banks' domestic operations only on an optional basis and that if a foreign bank wishes to qualify for Federal deposit insurance, it continue to be required, as at present, to establish a separately incorporated domestic subsidiary."

If, as indicated, in the House bill surety bonds or asset pledges are a substitution for unworkable Federal deposit insurance, they are presumably also unnecessary and discriminatory.

FRB, through Governor Mitchell, revealed less than enthusiasm for mandatory Federal deposit insurance when he testified (Senate Tr. p. 35):

> " . . . The greatest insurance against liability problems with branches and agencies is in admittance standards . . So I think that the insurance issue perhaps has absorbed more attention than it ought to . . . I see no objection to branches being insured."

The Treasury Department's written statement (Senate Tr. p. 232) opposed mandatory Federal deposit insurance

as discriminatory and warned that the surety deposit approach (later appearing in the House bill) should not "place discriminatorily burdensome obligations" on foreign bank branches.

(b) Mandatory Federal Reserve Requirements and Other System Regulations

FDIC has opposed mandatory System membership as discriminatory (see above quote).

The Treasury Department has objected in two letters to the St Germain Subcommittee, dated April 30 and May 10, to the authority given in the House bill to the Federal Reserve Board to discriminate against foreign banks in the manner in which it imposes reserve requirements.

The State bank supervisors have repeatedly opposed both mandatory membership in the Federal Reserve System and the more limited mandatory Federal reserve requirements.

(c) Multi-State Branching

FDIC, while explicitly approving the prohibition of future nonbanking activities, withheld support for the multi-state branching restrictions on foreign bank branches by making no comment (Senate Tr. 251).

The Comptroller of the Currency advised your Subcommittee to resolve domestic interstate branching policy before legislating new foreign bank restrictions (Senate Tr. p. 306). His testimony on the House side explains more fully his reasons (House Tr. p. 2419):

> "I would hate to see us freeze in place that process at this time in only New York, Chicago, and San Francisco. These are fine cities, but there are also some other American cities which are aspiring to become strong centers of international trade and commerce. And that objective, I think, is strengthened by the presence of major international banking institutions. I think we would be doing a disservice to some of our own American communities if we moved too hastily and too abruptly with this particular legislative undertaking."

The State supervisors' opposition to the House bill has been particularly vigorous on the multi-state branching issue.

(d) Federal Screening

The Treasury Department, in the two above-mentioned letters to Mr. St Germain, opposed the screening provisions of the House bill on the grounds of conflict with the open-door policy of the United States towards foreign investments.

The State supervisors opposed Federal screening as an erosion of the dual banking system.

(e) <u>Grandfathering</u>

<u>FRB</u>, <u>FDIC</u> and <u>Treasury</u> all strongly support unrestricted grandfathering with respect to multi-state branching and nonbanking activities, including securities affiliations, in contrast to the restricted grandfathering of the House bill.

From the foregoing rundown of the views of bank regulators, it appears that the Federal Reserve Board stood alone in supporting without reservation the House bill at the time of its passage (although we presume it prefers its own bill). Under either the Fed or House bill, FRB jurisdiction is sharply expanded to give it the dominant role in regulating foreign bank activities in the United States.

Looking now at the banking industry, the two groups most directly affected oppose both the House and Senate bills as unnecessary and discriminatory. They are the Institute of Foreign Bankers, representing most of the foreign bank offices in the United States, and the New York Clearing House Association, representing 11 large international domestic banks, which account for most of the overseas banking investments of United States banks, and which comprise most of the domestic competition for foreign banks. These banks are the major competitors because New York City is the major center of activity for most of those foreign and domestic banks which are conducting a large and active international and wholesale banking business. It is for this reason that the New York Clearing House banks

are the element of the domestic banking industry most sensitive to the potential for the House bill to upset the stability of the worldwide regulatory climate for international banking.

The only other banking association sufficiently interested to have presented a position to your Subcommittee is the Bankers Association for Foreign Trade which has offered the only evidence of concern by domestic banks about possible advantages of foreign banks.

The BAFT position endorsed the principles of equal treatment in the Fed bill and the features which purport to equalize, namely, multi-state branching restrictions and nonbanking activities restrictions. BAFT opposed some key features of the Fed bill, namely, mandatory membership in the Federal Reserve System, including mandatory Federal reserve requirements, and mandatory Federal deposit insurance on the grounds that each of these features discriminate against foreign banks (Senate Tr. pp. 449, 450). We believe that this logically translates into opposition to Section 6, Section 7(a) and Section 7(d) which are the House bill counterparts. Mr. Smith of BAFT testified that there are no abuses requiring legislative correction by foreign banks or by their affiliates (Senate Tr. 442). Mr. Wolfe testified for BAFT before the House Subcommittee (House Tr. p. 1882) that there was not "one example" of "unfair competition . . . if we felt there is tough competition that we could not meet . . . we would say we were being discriminated against

. . . we are not." Mr. Smith also testified that BAFT had a "difficult time getting a consensus on the need for legislation" (Senate Tr. p. 439).

We conclude that the main enthusiasm for the House bill derives mostly from a natural interest in producing a product after the extensive work done by the St Germain Subcommittee on its ambitious FINE study and earlier by the Mitchell task force of the Federal Reserve Board on international banking. The banks affected by the bill and the bank regulators are either negative or mixed and a long way from any consensus for support of the major features of the House bill.

3. Multi-State Branching

Multi-state branching is the threshhold issue without which foreign bank legislation would not have gotten started. The House bill gives equal treatment among banks priority over equal treatment among cities competing for the business which derives from international financial center status. It would impose a Federal prohibition to block effectively efforts to attract foreign bank branches to many important cities. The only justification, the protection of competing domestic banks, does not stand up.

The recent success of Chicago in attracting several dozen foreign bank branches in about two years could not have occurred under the House or Fed bill. New foreign bank activities in the U.S.

would tend to be concentrated in the several largest money center cities to the detriment of other growing financial centers. Over the next decade Miami, Houston, Boston, Atlanta, Philadelphia, Seattle, Minneapolis, New Orleans and many other leading cities may decide to attract foreign banks in an effort to stimulate international finance and commerce.

There are no public policy grounds on which the Federal government should block such forward-looking and constructive civic and economic aspirations. On the contrary, existing Federal law (Section 3(d) of the Bank Holding Company Act) enables any State, explicitly by statute, to admit subsidiary banks owned by out-of-state banks, whether foreign or domestic. It has been Federal policy to discourage anticompetitive geographic restraints on commerce of all kinds and to respect States' rights to determine whether to admit out-of-state banks.

Significant multi-state branching by foreign banks is largely the result of Chicago opening up to foreign banks, many of which were already branching in New York and San Francisco. Illinois concluded, after carefully studying experience in other States, that foreign banks could most effectively be attracted to Chicago in the form of branches. The controversial issue of retail branch banking was avoided by limiting foreign banks to a single site in downtown Chicago. The result has been no controversy with the Illinois banking community and a boost to international commerce and finance in Chicago. Should this have been prevented by Federal law? If not, it is difficult to justify denial of a comparable opportunity to other cities,

which may in the future have similar progressive plans, if and when the laws of their States are amended to permit such entry. This bill would bring about an artificial concentration of new foreign banking in New York City, the dominant U. S. money center and logical "home State" choice for most foreign banks, and would lock in the preeminent positions of California and Illinois as well, because many large foreign banks are already there. It is interesting that these beneficiary States do not seek and vigorously oppose any such preferred positions bestowed by Federal intervention.

The January hearing record establishes that large domestic banks are far more active, by any count, in interstate wholesale banking than are foreign bank branches. In comparison with foreign banks, these large U. S. banks have about 25 times the number of locations outside their home State in about 10 times the number of States. Neither group of banks do any appreciable interstate retail deposit banking outside their home State.* Foreign bank multi-state branching, primarily in the wholesale banking markets of New York and Illinois, constitutes the belated catching-up with large domestic competitors which are active wherever the money markets take them, at home and abroad.

* The exceptions are subsidiaries grandfathered under the Bank Holding Company Act, which could be insured retail banks. There is one such foreign-owned bank and more than 8 domestic banks.

4. Federalization

Federalization of foreign bank regulation under the House bill takes many forms and can only be appreciated in their cumulative impact which overwhelms and duplicates existing State regulation.

(a) FRS Regulations

The FRB would be empowered to impose all of the diverse regulations of the Federal Reserve System, not just the reserve requirements, on nonmember foreign bank branches and agencies. It would also be empowered to impose special reserve requirements on such banks, which could be discriminatory in that the same restrictions need not be imposed on domestic banks. No explanation has been given as to how this broad authority would be used.

(b) FDIC Bonds and Pledges

Despite the repeated statements of the Federal Deposit Insurance Corporation that the business of foreign bank branches and agencies would not require the type of depositor protection contemplated by the Federal Deposit Insurance Act, FDIC would be compelled to administer a novel and discriminatory program of surety bonds and pledges as a substitute for deposit

insurance. We know nothing of the financial and administrative costs involved because the FDIC has yet to be asked to explain how they would use this broad authority.

(c) The Federal Options

The Comptroller of the Currency is required by Section 4 of the bill to license foreign bank branches and agencies under regulations derived from the National Bank Act, which are designed for corporations, not branches. The resulting as yet unknown complications may be very important, because this bill imposes so much mandatory Federal regulation that foreign banks may well be driven to withdraw from State regulations as the only way to avoid burdensome duplication by "voluntarily" converting to Federal branches or agencies.

(d) Federal Screening

The Federal Reserve Board is authorized to screen all applications to State agencies by foreign banks to establish branches, agencies or "commercial lending companies", with power to veto under very broad criteria.

(e) FDIA Cease and Desist Orders

The Federal Deposit Insurance Act powers to order FDIC member banks to cease and desist illegal, unsafe or

> unsound activities are made applicable to foreign bank branches, agencies and "commercial lending companies" organized under State law and subject to State regulation, which is being overlapped.

We believe the combined result is total and indiscriminate Federalization of foreign bank regulation. Equal treatment and monetary policy, the only concrete justifications offered for both the Fed and House bills, are left far behind. Federalization of the regulation of State chartered and licensed banking operations of foreign banks is presumably proposed on the assumption that New York, California and Illinois cannot do the job as well as the several Federal agencies. But not one iota of specific evidence has been offered on the inadequacy of State regulation which would be duplicated by the proposed new structure of Federal regulation.*

5. Equal Treatment

The justification of equal treatment, without which this legislation could not have gotten off the ground, does not stand close scrutiny. Domestic bank regulations are inherently diverse

* On the contrary, the Treasury Department, by letter dated April 27, 1976, to Chairman McIntyre, commented "Our endorsement of a Federal role over U. S. affiliates of foreign banks should not be read to imply that State regulation is inadequate." (Senate Tr. 234).

and unequal in their application to different classes of domestic banks. To graft onto this system pure equal treatment as between foreign and domestic banks without also equalizing the treatment of various classes of domestic banks is impossible - it merely reshuffles the inequality. This diversity is not called unfair competition as between domestic banks; to do so in the case of foreign banks shows a bias against foreignness.

The bill attempts to use a size distinction to overcome the obvious discrimination of imposing on foreign banks Federal regulations to which domestic banks are subjected only at their election. The logic fails for two reasons. First, while the large domestic banks may all be members of the Federal Reserve System, this is their choice and they can withdraw whenever the benefits are outweighed by the burdens. Second, foreign bank branches, agencies and investment companies are separate operating entities which must succeed independently of the home office or eventually be phased out as unprofitable investments. Thus, if size is relevant, realistic comparisons with domestic banks should be made with the U. S. operations and should not include the overseas operations, which, incidentally, are already subject to foreign reserve requirements and other foreign regulations. Finally, there is no precedent in U. S. banking law for discrimination based on size. It is a poor way to legislate and should not be initiated without deeper investigation of its significance.

6. Monetary Policy

The only specific need alleged in the hearings for a greater Federal role in foreign bank regulations has been to strengthen the FRB capability to administer monetary policy. This need has been merely asserted as self-evident, without factual support or argumentation about the monetary quantities involved or about the controversial question of the value of reserve requirements in controlling the money supply. The hearings produced impressive professional opinion that Federal reserve requirements imposed on foreign banks in the U. S. would do little to further the administration of U. S. monetary policy. Any requirements which can be supported could readily be met through cooperation with the few States which regulate foreign banks.

Furthermore, the record is clear that foreign banks themselves have without exception provided excellent cooperation with the requests of the Federal Reserve Board for voluntary compliance with FRB requirements and the furnishing of data requested by FRB for monetary policy purposes. Voluntary compliance is an accepted FRB tool of regulation which has worked on both domestic and foreign banks. FRB has not explained why it is not adequate to meet the purposes of its proposed legislation.

Even if monetary policy required new legislative authority to enable the Federal Reserve Board to regulate the reserves of U.S. offices of foreign banks, this would hardly justify the extremes of

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this bill, which would authorize the substantial equivalent of mandatory membership in the Federal Reserve System along with its attendant wide range of bank regulations other than reserve requirements.

7. Additional Serious Defects in House Bill

(a) Section 2 - National Banks

As an indication of how seriously the House takes the equal treatment banner which flies over its bill, Section 2 would reform the National Bank Act discrimination against foreign directors of national bank subsidiaries by perpetuating the discrimination in a slightly less severe form. Instead of prohibiting all foreign directors, foreign banks would be allowed to have its nationals comprising less than half of the Board. The problem of assuring control of the subsidiary is not solved by requiring a majority of the Board to be citizens of a country other than that of the parent. The objective of encouraging use of national bank subsidiaries is not well served.

(b) Section 4 - Federal Branches and Agencies

Section 4(d) says that Federal agencies could not accept any deposits, not even foreign deposits. In contrast, Section 1(a) defines an agency as an office which may not accept deposits from U. S. citizens or residents, but permits foreign deposits. If it is

intended to give foreign banks a choice between a Federal agency and the California type of agency which can accept only foreign deposits, Section 4(d) defeats that purpose.

(c) Section 5(a) - Multi-State Branching

Apart from reasons presented earlier against denying access to foreign banking by the few financial center States, it should be pointed out that Section 5(a) explicitly applies conflicting policies to branches and subsidiaries. Subsidiaries of foreign banks remain covered by the most recent expression of existing Federal policy on this subject, namely, Section 3(d) of the Bank Holding Company Act, which permits banking in states other than the home State if the second State so permits by statute explicitly. Branches are unconditionally prohibited in secondary States unless Federal law is amended. The deference to States' rights in Section 3(d), while putting the States to some trouble, makes more sense than the House bill's peremptory Federal prohibition applicable to branches.

(d) Section 5(c) - Home State

The determination of the "home State" beyond which branching is prohibited appears on the surface to be the choice of the foreign bank. There are at least two unnecessary catches in Section 5(c). First, the FRB can overrule the choice. Second, the most important

State for some banks, notably some Japanese banks, is the location of their agency. Yet a second State in which they might have a relatively smaller branching operation would become the home State, even though the first State may be preferred. No reason has been suggested for failing to give a foreign bank a full and free choice of a home State, based on its own judgment of the location of the most interesting banking markets.

(e) Section 6 - Bonds and Pledges

Surety bonds and asset pledges are a discriminatory substitute for mandatory Federal deposit insurance, which is also discriminatory. Section 6 was sold in the House on the strange theory that the benefits of insurance should remain confined to FDIC members, but the cost should be equalized by imposing special costly burdens on foreign bank branches. If the purpose is depositor protection (which FDIC says is not needed), Section 6 should at least avoid duplication with other Federal and State laws and regulations which are designed to protect depositors by assuring the availability of assets. Without taking time to catalogue these laws, it seems obvious to us that the discretion already granted FDIC by Section 6 could usefully be extended to allow FDIC to review existing law and add new requirements only if, and to the extent that, the business of foreign bank branches appear to require additional depositor protection, taking

account of the adequacy of existing law. It would, of course, make better sense to ask FDIC to study the question of need and to propose legislation if, and only if, a need not met by existing law is identified. The precise nature of the proposal could then be exposed for public comment. It is not possible to anticipate the impact of the vague authority in Section 6 of the House bill.

(f) Section 7 - Federal Reserve Act Requirements

Section 7 is best justified solely by Federal monetary policy requirements. Although many disagree with that justification, it is better than the notion that nonmembership in the System is unfair competition. If the purpose is limited to monetary policy, the FRB authority in Section 7(d) to apply many and diverse regulatory restrictions in addition to reserve requirements, which make Section 7 tantamount to mandatory System membership, would be deleted. Likewise, the unnecessary FRB power in Section 7(e) to veto applications for State licenses of branches and agencies and State charters for commercial lending companies would be dropped. To avoid compounding the discriminatory results of mandating Federal reserve requirements, the FRB authority should be curtailed so that reserve ratios on foreign bank operations could not be higher than for domestic banks and so that reserves could not be required for types of foreign bank transactions which are not applied to comparable domestic bank transactions. The most likely examples of the latter are the application of reserve requirements to credit balances and advances from

foreign home offices, which FRB has under study, the results of which have yet to be revealed.

(g) Section 7 Coverage of Agencies and Commercial Lending Companies

Federal Reserve requirements are not applied to nondepository domestic institutions and their application to nondepository agencies and commercial lending companies would, therefore, be discriminatory. The objective of Federal control of the movement of foreign funds in and out of the United States cannot be significantly met, as the House Banking Subcommittee has assumed, through reserves imposed on agency funds, because such funds are subject to the same economic influences (costs and earning power) as are far larger funds which move internationally through a wide choice of banking and nonbanking channels other than agencies.

Commercial lending companies are, according to the House report on the bill, intended to mean investment companies formed under Article 12 of the New York Banking Laws and nothing else (the definition in Section 1 is less clear). There are more Article 12 investment companies owned by domestic shareholders than by foreign shareholders; Section 7 blatantly discriminates between them on the basis of nationality of shareholders, which is frankly conceded by the FRB (see Senate Tr. p. 5: "The Board was also concerned that any attempt to cover only the few foreign-owned companies would be regarded as discriminatory by foreign authorities"). Furthermore,

investment companies are even further removed from banking in the usual sense than are agencies and are more comparable to domestic nonbanking financial institutions which are not subject to reserve requirements. Being incorporated they are not convenient vehicles, as agencies are said to be, for moving funds in and out of the U.S. The House report and floor debate do not explain the purpose in extending the House bill over commercial lending companies. We believe that they were erroneously associated with agencies early in the development of the House bill. It is not in the Fed bill. It simply adds one more unnecessary discrimination.

The application of Section 7 to agencies and commercial lending companies owned by foreign banks raises unanswerable questions of equal treatment with domestic financial organizations which have a far greater impact on the supply of money and credit in the U. S.

(h) Section 8 - Nonbanking

As we have been saying to your Subcommittee, the problem of securities affiliates does not justify Section 8 because the issue belongs in other hearings giving broader consideration to Glass-Steagall policy. If it is decided that legislation is justified, after hearing from those affected, the Glass-Steagall Act should be amended with full grandfather exemptions for existing activities. This approach avoids the involvement of the Federal Government in

difficult extraterritorial regulation of foreign bank holdings of foreign industrial and trading companies which incidentally engage in commerce with the U. S. Such holdings are not only permitted but are essential to successful competition in many foreign countries. If, however, Section 8(a) is to survive, it should be noted that its grandfather treatment is discriminatory in two respects as compared to that which the 1970 Bank Holding Company Act amendments provided for domestic banks. First, there is a damaging restriction on the right of grandfathered security affiliates to distribute securities in the U. S. Second, if FRB elects by order to terminate grandfather status, the House bill gives only 2 years to divest the prohibited holding or cease the activity, rather than the 10 years granted domestic banks under the Bank Holding Company Act. Some foreign banks and their securities affiliates are particularly concerned about the unfairness of the first discrimination and will, we understand, explain this position more fully.

(i) Section 8 - Grandfather Date

The December 3, 1974 grandfather date predates any reasonable notice that Congress is likely to legislate. The House bill borrows this date from the Senate bill which reflects the FRB preoccupation with its own decision to request legislation. There was no indication at that time as to whether Congress would even hold hearings. The House bill uses May 1, 1976, the approximate time

the Banking Subcommittee decided to report out a bill, as the date of reasonable notice of prospective legislation for purposes of grandfathering branch locations in Section 5. There is no apparent reason for different dates of presumptive notice. There has been no rush of foreign banks to locate branches in secondary States (the Chicago branches were in response to effective local promotion) or to affiliate with securities firms between the two dates. If your Committee decides to report out a bill in this Congress or the next, and it has given no indication to date of any such intention, the grandfather date should be no earlier than the approximate time of publication of that bill. Whatever date is used for multi-state branching must realistically be applied to nonbanking activities.

(j) Section 10 - Registration of Representative Offices

The House record is devoid of any justification for Federal involvement with foreign bank representative offices. Registration means paperwork. A need should at least be articulated. As these offices do not engage in banking, and as registration to do business is traditionally a State and not a Federal responsibility, it would be difficult to establish a Federal requirement for such registrations.

(k) Section 11 - Cease and Desist Orders

Here again, the House record is devoid of any explanation for imposing FDIC powers to stop unsafe and unsound banking practices

by banking organizations which are licensed or chartered by State supervisors, who carry primary responsibility for preventing unsafe and unsound practices. The cumulative effect of duplicatory Federal regulation of foreign bank operations organized under and regulated by State law characterizes the entire House bill.

8. Conclusion

The conclusion is inescapable that equal treatment has been the rhetoric carrying this legislation as far as it has come but that the real thrust of the legislation is federalization of that part of the dual banking system which reaches foreign bank activities.

Competitive advantages, which the domestic banking industry has not felt and does not complain of, are used to front-run an expansion of Federal Reserve Board jurisdiction which has split the Federal agencies on key issues and generated strong opposition both from those State bank supervisors actively engaged in regulating foreign banks and from others who object to being denied the opportunity to attract foreign banks if and when such a move seems desirable.

The House bill makes Federal banking law as fully applicable as possible to foreign banks while attempting to avoid the appearance of eroding the dual banking system and of denying to foreign banks

the choice of Federal or State regulation enjoyed by domestic banks. The result is a powerful incentive for foreign banks to abandon State licenses and convert to total Federal regulation in order to avoid the burden of overlapping Federal and State regulation. If the trend of the times is to preserve the American system of restraints on the power of central government and to slow down the expansion of Federal power in recent decades, it would appear that this bill bucks that trend. It does so without identification of specific offsetting public benefits and without any clearly defined justification.

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August 27, 1976

Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
Dirksen Senate Office Bldg., Room 5300
Washington, D. C.

Dear Mr. Chairman:

On behalf of J. Henry Schroder Banking Corporation and European-American Banking Corporation, I am forwarding herewith six copies of the statement of Schroders and European-American on a single narrow issue raised by HR 13876, the International Bank Bill, on which your Subcommittee is holding hearings on August 31. It would be appreciated if the members of the Subcommittee would give consideration to this statement, and it is respectfully requested that it be included in the hearings record.

Respectfully yours,

SHAW, PITTMAN, POTTS &
TROWBRIDGE

By S L Pittman
Steuart L. Pittman
Counsel for
J. Henry Schroder Banking Corporation
European-American Banking Corporation

Enclosures

bcc: Stephen E. Davis, Esquire
Lionel S. Jassy, Esquire

COMMENTS OF

J. HENRY SCHRODER BANKING CORPORATION

AND

EUROPEAN-AMERICAN BANKING CORPORATION

ON THE INTERNATIONAL BANKING ACT
AS IT PERTAINS TO ARTICLE XII INVESTMENT COMPANIES

August 27, 1976

The House-passed International Banking Act, HR 13876, includes investment companies within its coverage, apparently applying the term "commercial lending company" solely to Article XII investment companies created under the Banking Law of the State of New York. They engage primarily in international financial activities and are not permitted to accept deposits in New York, although they are authorized to maintain "credit balances" incidental to or arising out of the exercise of their lawful powers. They differ from agencies in that they are domestically incorporated under New York law, and their ownership is not limited to foreign banks or foreign nationals.

In fact, although there are today five foreign-owned investment companies in New York, there are at least seven investment companies that are not foreign-owned. The latter include such giants as General Motors Acceptance Corporation, CIT Corporation, General Electric Credit Corporation and Commercial Credit Company, a subsidiary of Control Data Corporation.

Governor Mitchell and the staff of the Federal Reserve System, after a careful analysis of the unique situation of investment companies, excluded them from the Fed proposal to regulate foreign banks. The reasons given

were (1) that it would be discriminatory to regulate investment companies that are foreign-owned while not regulating investment companies that are owned by U.S. nationals and (2) that, since at the time there were only three relatively small investment companies doing business in New York, the exclusion of such companies would have no impact on Federal monetary or bank regulatory policy. As the Fed pointed out in its section-by-section analysis of its own bill, investment companies were excluded "because of the limited number involved and because of the difficulty of distinguishing these Companies on a nondiscriminatory basis from the domestically-owned companies that are not essentially engaged in a commercial banking function."

Since the introduction of the Fed Bill (S 958), the New York State Banking Department authorized the creation of two foreign-owned investment companies in addition to the three that had been in existence for many years. (In both cases, the Department was satisfied that there were special legal or business reasons why the investment company charter was appropriate for the particular applicant.) This led to some concern that the exclusion of investment companies from the International Banking Act would open a loophole through which foreign banks might escape regulation. However, Governor Mitchell suggested that, if this is a real concern,

the Bill could be amended so as to exclude from coverage through "grandfather rights" those investment companies that were in existence and actively engaged in business on some date such as December 3, 1974 (the date of introduction of the Fed Bill). In view of the fact that all three of the original investment companies have been continuously engaged in business in New York for many decades, and these businesses have been built up in reliance upon the regulatory structure provided by Article XII of the New York Banking Law, it would seem only fair to give those institutions the right to continue their established businesses in accordance with the existing regulatory structure.

Both the Fed and the House Committee have emphasized that they are motivated by the desire that foreign banks should be regulated on the same basis as domestic banks. The case of the foreign-owned investment companies is sui generis in that they are separately incorporated U.S. corporations--not foreign corporations or branches or agencies of foreign corporations. They are subject to the same laws and regulations as other U.S. corporations and, therefore, have no special advantages which are not available to others. The proposed legislation would clearly discriminate between foreign and domestically-owned institutions solely on the basis of the nationality of their owners.

By the simple device of a sale of the shares of a foreign-owned investment company to a United States bank or other domestic U.S. corporation, the investment company in question would no longer be affected by the International Banking Act. Therefore, so far as investment companies are concerned, the Bill is a clear example of according one kind of treatment to an organization owned by foreigners and another kind of treatment to the same organization owned by U.S. citizens, even though the stated purpose of the legislation is to accord nondiscriminatory treatment to foreign and domestic banks.

It appears that the only consequence of covering investment companies is to subject them to the restrictions imposed on member banks contained in Section 7 of the House Bill. The application of Federal reserve requirements to investment companies seems to serve no Federal policy. The purpose of reserve requirements is to affect the supply of money and credit by influencing the availability of funds necessary to back up the extension of credit by banks. Deposits are not available to investment companies to fund loans. Credit balances are restricted by New York State law to balances maintained incidentally to or arising out of authorized transactions and they must be temporary in nature. For these reasons, they are inherently different from deposits and, unlike deposits, could not have any appreciable impact on monetary policy. Thus, we believe

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that no apparent purpose is served in subjecting investment companies to Federal reserve requirements, and certainly none has been identified for subjecting investment companies to the many other restrictions on member banks as authorized by Section 7(d) of the House bill.

Interestingly enough, both European-American Banking Corporation and J. Henry Schroder Banking Corporation (two of the three active investment companies), although foreign-owned, are affiliated with New York State-chartered banks that are themselves members of the Federal Reserve System. In the case of Schroders, the English parent companies are all registered as bank holding companies, so that the U.S. subsidiaries, including the investment company, are already subject to the Bank Holding Company Act. In the case of European-American, it is not presently subject to the Bank Holding Company Act but has published notice that it wishes to form a domestic U.S. bank holding company. The third major investment company, French American Banking Corporation, is affiliated with a state-chartered bank in California.

Exclusion of investment companies from the Bill will not create a loophole any more than permitting U.S. nationals to own an investment company creates one. In both cases, the institution is subject to the same state regulation.

If it is the decision of Congress that all state-chartered banks and investment companies in the United States should be subject to regulation by the Fed, then it would not be discriminatory to include investment companies regardless of the nationality of their shareholders. But it is not fair or reasonable to single out foreign-owned investment companies for special treatment when other types of foreign-owned banks are excluded and the same investment companies if owned by U.S. citizens are excluded.

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September 1, 1976

Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
Dirksen Senate Office Bldg., Room 5300
Washington, D. C. 20510

Re: H. R. 13876

Dear Chairman McIntyre:

At the hearing on August 31, 1976, you asked the witnesses for certain comments about possible changes in H. R. 13876. We respond to your questions, as we understood them, as follows:

1. FDIC on Sections 6 and 7. The FDIC letter of August 26, takes the position that mandatory Federal deposit insurance and the substitute bonds and pledges of Section 6 of H.R. 13876 are inadvisable, because they discriminate against foreign banks and are unnecessary. It also says that the Section 7 provisions subjecting foreign bank offices to the Federal Reserve Act regulations are discriminatory because System membership is voluntary for large domestic banks. The letter rejects the attempt to reconcile these discriminations by the application of a size distinction. FDIC goes on to suggest a new idea, which has the endorsement of the Treasury Department, namely, a modified Section 6 which would offer a modified form of optional Federal deposit insurance for foreign bank branches coupled with "less onerous" bonds and pledges for the protection of FDIC in the event that the option is exercised. As evidenced by our statements to your Subcommittee last January and at the August 31 hearings, we agree with the FDIC views about Section 6 and 7 of the House bill. We find the new suggestion for optional insurance to be unobjectionable and constructive. We attach particular significance to the FDIC observation that Section 6 may be counterproductive in encouraging

retail competition with local domestic banks. By discouraging branch operations the House bill may compel foreign banks to establish subsidiaries, which largely escape the strictures of H. R. 13876 and which are the only practical vehicle for foreign banks to engage in retail banking in the United States. As shown in California several years ago, retail competition is controversial; we believe there is no significant objection to wholesale competition.

2. FRB on Section 6. The FRB proposes mandatory FDIC membership, recognizing that Section 6 of the House bill may not achieve its purpose. The FDIC letter of August 26 is persuasive against this proposal and offers the only solution so far advanced in which the Institute sees merit.

3. FRB on Section 5(a). The FRB proposes amending Section 5 in two ways, one helpful and the other harmful:

> (a) Secondary States could admit foreign bank branches if the domestic State banks of the home State of the foreign bank are also permitted to establish branches in the secondary State This could have significance if and when interstate branching compacts become a reality and include those States in which foreign banks are interested. It is a potential improvement.
>
> (b) Foreign bank agencies would be subject to the one-state branching restriction, apparently on the grounds that the assets of agencies aggregate more than those of branches The FRB seems to overlook completely the abundant evidence in your record that the large domestic banks with which foreign banks compete have in multiple States nondepository banking offices or subsidiaries of various types, not merely Edge Act corporations. This aggravates the discriminations in the House bill.

There is a thin argument that foreign bank branches, which can take domestic deposits have a theoretical advantage over domestic banks in being able to take deposits in more than one State We have offered evidence that this alleged advantage is not real, but there is no argument whatsoever on either theoretical or practical grounds for restricting foreign bank agencies to one State while domestic banks are permitted by a combination of Federal and State

laws to engage in comparable nondepository wholesale banking business in many States. Permitting foreign ownership of Edge Act corporations fails to equalize because of the narrow limits to the powers of such corporations, which have caused domestic banks to use other types of nondepository offices and subsidiaries. In this connection, we urge the Subcommittee to examine closely into the manner in which a large domestic bank is able to generate deposits in its home State (say New York) from national and multinational corporate customers by making loans and providing other nondepository services in secondary States (say Texas). The practical result is similar to generating deposits in Texas. We think that any investigation which penetrates below the superficial concepts will demonstrate that foreign banks have no competitive advantage in multi-state branching over the large banks with which they compete We also wonder whether the polls taken by BAFT were not responses to philosophical questions about equal treatment which could only produce one answer from domestic banks which have not been presented with detailed facts on how the large foreign and domestic banks compete in many locations primarily for wholesale banking business including the deposits of multi-national corporations Misconceptions about this issue are at the root of the question as to whether foreign bank legislation is ready for action at this time.

4. FRB on Section 7. Regarding Section 7 of the House bill, we find it disappointing that the FRB has still given no indication at this late date of how it would use the authority to discriminate against foreign banks in Section 7(a) and the authority to apply member bank restrictions in Section 7(d). Rather than giving up unneeded authority, the FRB is proposing to expand Section 7 to State bank subsidiaries of foreign banks. It erroneously treats branches and subsidiaries as mere differences in form, whereas the House bill more realistically recognizes that foreign bank subsidiaries are the same as State banks, except for share ownership which is an unsound basis for discrimination The House bill has little effect on such subsidiary banks. The FRB does not object to the lack of coverage of subsidiaries in other sections only in Section 7, which contains the broad new Federal Reserve Board powers to which we ob ect. For reasons stated in both of your hearings, we believe that Section 7 should be eliminated or sharply curtailed to avoid unnecessary discrimination. Certainly, it should not be expanded.

5. FRB on Section 8(a). The proposed FRB amendment to Section 8 codifies with certain changes the existing regulations issued under Section 4(c)(9) of the Bank Holding Company Act five years ago, applicable to foreign bank holding companies which have

subsidiary banks in the U. S. In one respect, it is an improvement over the House bill (which is intended to carry over the 4(c)(9) exemptions): it exempts foreign nonbank holdings principally engaged in business outside the United States, because the exemption is available even though there is control of the nonbank holding. However, in at least two other respects, it is more restrictive than the House bill and the treatment of subsidiaries under the existing regulations:

(a) Otherwise exempt foreign nonbank holdings principally engaged in business outside the United States lose their exemption as to activities "closely related" to banking as regulated under Section 4(c)(8) of the Bank Holding Company Act. We see no merit in being more restrictive on activities closely related to banking than on activities which have nothing to do with banking. In either case, the statutory presumption must be that the remoteness of common foreign ownership presents little problem of competitive advantage or abuse and that the considerable difficulties in extraterritorial regulation should be minimized. Neither of these factors are changed by the nature of the activity.

(b) The amendment requires the terms of credits to be equal in all respects for affiliated and other borrowers. Foreign and domestic banks alike must be expected to oppose regulation of credit terms, a particularly sensitive area of traditional management prerogative. Which borrowers and what circumstances are to be compared for this purpose? If in the future abuses are identified, the application of Section 106 of the Bank Holding Company Act (the so-called 'tie-in" provisions) is better conceived to avoid abuses in a manner consistent with the equal treatment principle.

The proposed amendment contains more technical difficulties. If this amendment is to be considered in a markup session by the Subcommittee, we would appreciate an opportunity to comment on a more technical level.

6. FRB and Treasury on Section 8(c). We concur in the FRB and Treasury Department view that, if there is to be a Section 8 prohibition on nonbanking activities, grandfathering should be complete and permanent. As pointed out in our statement, we disagree that December 3, 1974, is a reasonable notice date and that there should be two different grandfather dates in the bill.

7. FRB and Treasury on Federal Screening. Neither agency appears to support screening, but Treasury strongly opposes on foreign economic policy grounds. This should mean deleting the veto power in Section 7(e) as well as Section 9. In that case, the House bill would be improved Furthermore, Section 9(a contains standards which are especially important in their application to Section 7(a) and Section 7(d). These standards would impose as equal treatment the regulations applicable to member banks and would also impose anything additional (and discriminatory) which might be deemed helpful to monetary or national policy. However we suspect that the FRB wishes to retain this two-pronged standard. Treasury has written to Mr St Germain stating opposition, with which we agree, to the power of the FRB to impose reserve restrictions under Section 7(a) which could discriminate by being more onerous than those applied to domestic banks.

8. The Two House Amendments. The Stephens amendment permits States to admit foreign bank branches and agencies even though it is not the foreign bank's "home State". We concur in this disposition of the multi-state branching problem and construe it to mean that Section 5 becomes superfluous. The Rees-Moss amendment replaces the Section 8(b) period of grace and the Section 8(c) grandfather exemption for securities affiliates with authority for the FRB to resolve the problem in three years and review it at three-year intervals While deferring to the securities affiliate witnesses who are most directly affected we have great sympathy for their comments that they cannot live with an uncertain future, which seems to be assured by this amendment.

9. Equal Treatment. We agree with the implication of your question about the meaning of equal treatment, namely, that it has many meanings which have been applied in a confusing manner. We believe that any new banking legislation found to be necessary should apply equally to foreign and domestic banks. Existing law is unequal because of the unique multi-choice nature of the American system of bank regulation. Any attempt to legislate equality by changing existing law must deal with reality, not mere symmetry and legal concepts. Your record abounds with evidence that the totality of regulatory treatment does not provide foreign bank offices with a better competitive footing than domestic banks and no such contention has been made. The reality suggests the opposite, namely that foreigners can establish banking operations in only a few States which deny them effective access to retail deposit business unless they incorporate as domestic charter banks. The key fact, which we discuss at pp. 522 and 523 of the January transcript of your hearings, is the compara-

tive cost of funds. This bottom-line factor appears to be more favorable to domestic banks because they have a strong base in retail deposits, which are the lowest cost source of funds. However, the Institute suspects that legislation to provide true equality is highly unlikely and that basic regulatory changes would bring several years of uncertainty to foreign banking in the U. S. For these reasons and other reasons in our statements, we find the banner of equal treatment flying over the House and Fed bills to be illusory and urge your Subcommittee to give greater weight to the economic consequences than the rhetorical and legal concepts encompassed by the phrase "equal treatment".

* * *

In conclusion, we suggest that your Subcommittee's seven-point outline on which comment was requested last January was a more realistic basis for compromise than the collection of proposals generated by the August 31 hearing. If discriminatory provisions are eliminated, if a pragmatic and not a conceptual view of equal treatment is taken, and if the powers of the Federal Reserve Board are limited to demonstrated needs, a proposal very much like your outline would emerge. Unless there is some reason unknown to us for legislating for the sake of legislating, that proposal would not appear to justify reporting out a bill at this time. We believe a Committee report along the lines which we have suggested in our comments, dated February 23, on your seven-point proposal would be preferable to a Senate bill.

In making this comment, we appreciate and have thought about the advice of Senator Stevenson at the hearing that the House may produce a more restrictive bill next year. In view of the unresolved differences of opinion among bank regulators and among those domestic banks which have concerned themselves with this subject, we are inclined to take our chances on the future, relying on a gradually improving understanding of this complex problem to avoid unnecessary and discriminatory legislation.

I want to express for Mr. Hollos and myself, and for the Institute of Foreign Bankers, our genuine appreciation for the intelligent and open-minded manner in which you, your Subcommittee, and Mr. Weber have developed the record on foreign bank legislation. The transcript of the January hearings is the most valuable document

available for the education of those interested in this subject both abroad and in the United States. As enhanced by the August 31 record, it should contribute considerably to constructive treatment of foreign bank legislative proposals in the future.

Respectfully yours,

SHAW, PITTMAN, POTTS & TROWBRIDGE

By ______________________
Steuart L. Pittman
Counsel for
Institute of Foreign Bankers

Senator McINTYRE. Thank you.

Dr. Jahn, we are pleased that you came all the way from Europe to share with us your views on these matters. Of course one of the primary concerns which has surrounded this legislation from the beginning is the suggestion of retaliation by foreign countries in response to what they would perceive to be discriminatory treatment by the U.S. Government. Specifically, assuming a satisfactory solution to the problems you have raised regarding section 8, do you feel this legislation could, with a minimum of tailoring, be made acceptable to other nations so as to defuse these implicit threats of retaliation?

Dr. JAHN. Mr. Chairman, first I have read this morning with regrets the New York Times article on the question of retaliation. I dislike the word and I dislike the concept. Of course I cannot exclude that some bad reaction to legislation of that kind might come up in this or that European country. I am not a prophet and I am not a legislator, but just as I would regret the passing of this bill by the Senate I would regret any action taken by any European country to retaliate against any U.S. legislation because I feel this is detrimental to the Atlantic spirit by which we all live.

If section 8 was dropped and a few other changes were made in a few other paragraphs of the bill I don't think there would be much objection left.

Senator McINTYRE. Mr. Hollos, do you wish to comment on that?

Mr. HOLLOS. Well, I think I have to almost repeat what Dr. Jahn said and what I once said on several occasions to Governor Mitchell. We are just bankers and if you talk about consequences which may happen in this country or another country, you're really thinking of our own or the foreign parliamentarians who can also be aroused to excitement and protectionism. I see that Dr. Jahn very well stated we all benefitted after the Second World War in liberalization of the monetary markets. I think the United States has been the leader in the reduction of tariff barriers and we feel any protectionism or any discrimination or any stumbling block to put in the path of further development and exchange of capital markets is bad for all of us.

Senator McINTYRE. Mr. Pittman, in the interest of time, I will let you jump in whenever you want to elaborate or emphasize.

Dr. Jahn, you do not make reference to the branching restrictions contained in section 5. Are you at all concerned about section 5 as it presently stands?

Dr. JAHN. Well, some European banks, my own included, and my friends' at this table, all have this—have branches in several States, in New York in the first place, but also in places like California or Illinois. I don't know where else—Chicago and Los Angeles. Of course we do find it very difficult to conceive why—on that limited and largely internationally oriented basis we operate both in New York and Chicago—why we should be kept from continuing to do so or rather to be permitted to go let's say to Los Angeles or Atlanta, Ga., if we wish to.

On the other hand, Mr. Chairman, we have as an example the Chase Manhattan Bank not only in several German states within our federal republic—and we are a federal republic—let's say Munich or Frankfurt or Duesseldorf—and we have them in London and Amsterdam and Brussells and Paris. And we would strongly

dislike—although they are stiff competitors to us at home—we would strongly dislike any limitation on their action in Europe.

So I think competition we welcome, although bad and difficult and quite active. We would like to operate on a somewhat more modest scale, but still identical footing as they do.

Senator McIntyre. Similarly, section 7 represents a substantial grant of authority to the Federal Reserve in terms of its regulation and supervision of foreign banking activity in this country. Could you tell us how you view the provisions of section 7?

Dr. Jahn. I'm afraid I'm not an expert in banking law nor am I an American lawyer. I'd rather not comment on that.

Senator McIntyre. Mr. Hollos, would you like to comment on section 7, the fact that section 7 represents a substantial grant of authority to the Federal Reserve over foreign banking activities? Can you tell us how you feel about these provisions in section 7?

Mr. Hollos. Mr. Chairman, without wanting to spend time on wording, I think that basically we have three problems with that. If we're regulated in the certain area by the State banking authorities we don't see any need for this added burden to superimpose a Federal regulator overlapping State regulation.

Second, the Federal Reserve requirements, if they are equally applied, we have never had an objection against new laws equally applied to American banks and to us. We have no objection to the optional Federal Reserve membership. We are already having State and voluntary Federal Reserve requirements to comply with. We just are at a loss to understand, unless this is a complete federalization program, why should we have another overlapping layer over all the organizations we have already.

Senator McIntyre. Dr. Jahn, the Federal Reserve in its testimony suggests that it has met your concern regarding section 8 head on and has provided for them in the language submitted in appendix B to Secretary Gardner's statement. Are you in a position to comment on whether your concerns have been taken satisfactorily into account?

Dr. Jahn. I don't think they have.

Senator McIntyre. Would you elaborate on your objection?

Dr. Jahn. Well, I think the way the proposal, while grandfathering—again I repeat—grandfathering with the time limit is no grandfathering really; and second, those who are grandfathered are protected. As far as my firm is concerned, that's fine; but it would exclude anybody else who comes later to establishing in the United States both in that field and this field, and with regard to the nonbanking activities of certain banks this does not refer to our projects in the United States—of course it's far away from them; it's done through the others at home. This is not taken care of at all because as I said before, any European industrial company of which a major share is at the hands of a commercial bank could either stop the bank operating here or keep the company from coming here or remaining here.

So I think it hasn't been taken care of at all.

Mr. Pittman. I just want to add it seems to me the Fed proposal is an amendment which carries into statutory law what they are already applying through regulations with respect to foreign bank holding companies for almost 6 years. I don't see that it changes a great deal. There may be some minor changes. I havn't yet read it that closely, but I see it as a minor compromise.

Senator McINTYRE. Gentlemen, I'm going to have to recess the subcommittee hearing in order to go to the floor to vote. I should be able to get back here in about 10 or 15 minutes.

[Recess.]

Senator McINTYRE. We will move quickly, because I see there is another vote coming on the floor.

Dr. Jahn, have you had an opportunity to assess the FDIC's, Federal Deposit Insurance Corporation's, proposals for insuring deposits for foreign branches?

Dr. JAHN. I have read it.

Senator McINTYRE. We would welcome your comments on this proposal into this office before the expiration of 7 days. All you have is a week from today.

Mr. Hollos, you haven't had a chance either?

Mr. HOLLOS. I just picked it up.

Senator McINTYRE. The same thing.

We would like to have your comments for the record.

There has been discussion of the Stephens and Rees-Murphy amendments, which have been on the floor of the House and rejected.

Would you comment on those amendments for the record? Those two amendments over in the House, Stephens and Rees.

Gentlemen, the Treasury maintains that section 9 should be deleted from the bill. How do you feel about that, Mr. Hollos, section 9?

Mr. HOLLOS. We feel so badly about this bill, anything which is removed from it would make it better.

Dr. JAHN. If I can make one comment with regard to the rash answer I gave earlier. Sections 5, 6, and 7 really have been largely dealt with in the hearing in January.

I think the position of the banks was made quite clear at that time, as strongly opposed.

Mr. PITTMAN. A word about section 9. It puts the Federal Reserve Board in the position, as I read it, of requiring the equal treatment standard to be applied to section 7, unless monetary policy requires discrimination against foreign banks. From what little we know of the Fed plans for use of the section 7 authority, there would be such discrimination.

Section 9 is significant, because it expresses these two standards and imposes them on the Federal Reserve Board, so the Federal Reserve Board doesn't have the unlimited authority under section 7 to do what it thinks is sensible for monetary policy only or for equal treatment only; its restrictions must serve both policies.

Senator McINTYRE. Fine. Now, gentlemen, Dr. Jahn, and Mr. Hollos, the concepts of equal treatment, uniform national treatment, mutual nondiscrimination appear to be somewhat elusive.

If we choose to go forward with this legislation, of course, we would sincerely try to avoid any unreasonable discrimination.

You have had an opportunity to hear the testimony that has been given here this morning, so if you have any further thoughts regarding these matters, I would certainly welcome your input as soon as possible within the next 7 days.

I am not going to ask for an oral answer, because of other vote. I might as well go down and vote.

We still have one witness to go.

With that, I will thank this panel for being here this morning.

Sorry that we have had such a crowded agenda, but then that is not unusual.

So we do appreciate your testimony and the time that you have given to us for our deliberations and the subcommittee.

Thank you.

Senator McINTYRE. We will call as our last witness Mr. Douglas A. Smith, president, Bankers' Association for Foreign Trade.

You are accompanied by some associates, Mr. Smith, so I would appreciate it if you would introduce them for the record, and then move on and testify as you see fit.

Mr. SMITH. Thank you, Senator McIntyre.

I am accompanied by Robert Palmer, who is executive vice president of the Philadelphia National Bank and a vice president of the Bankers' Association for Foreign Trade. He is the chairman of our committee on foreign banking in the United States.

I am also accompanied by Thomas L. Farmer, who is counsel for the association, and a partner in the Washington law firm of Prather, Seeger, Doolittle, Farmer, and Ewing.

STATEMENT OF DOUGLAS A. SMITH, PRESIDENT, BANKERS' ASSOCIATION FOR FOREIGN TRADE, ACCOMPANIED BY ROBERT PALMER AND THOMAS L. FARMER

Mr. SMITH. I would like to summarize our statement, and then I hope you will permit me to ask Mr. Farmer and Mr. Palmer to assist me in answering any questions which they might be able to assist in.

As you know from our previous testimony, the Bankers' Association for Foreign Trade is an association of those U.S. commercial banks which have active international banking departments.

Our voting members include almost every American bank which operates a significant international department.

Among those voting members are banks from 32 States, the District of Columbia and Puerto Rico.

We heard this morning and reviewed the statements of Secretary Dixon and Governor Gardner, and we continue, as we have in the past, to generally support the positions taken by the Federal Reserve Board and the Treasury on this legislation, and on the fundamental principles of equal national treatment.

The expansion of international services in a climate of free and open competition to meet the needs of world trade and economic development is of primary concern to all of the members of the association.

For the past several years, and particularly since the promulgation of the proposals by the Federal Reserve Board to regulate foreign banking in the United States, we have devoted a considerable amount of attention to the question of equal treatment for foreign and domestically-owned banks operating in the United States. The association has had a standing committee on the subject since 1972 and has adopted planks in our general policy statement at every annual meeting since 1973.

The legislation before you is of great interest to our membership and we appreciate the opportunity to appear before the committee to comment on it.

Basic to our position is our desire for a legal framework based on the concept of equal national treatment under which foreign banks would have the same rights to compete in the U.S. market as domestic banks and would be subject essentially to the same laws and regulations.

When legislation embodying this proposal and correcting certain inequalities in our present laws was introduced in 1974 by the Federal Reserve Board, S. 958, it was supported by an overwhelming majority of our membership.

Since the Federal Reserve Board proposal had not been given active consideration by the Congress, at our most recent annual meeting in April 1976 an again overwhelming majority of the membership voted to support a bill then pending in the House of Representatives embodying the principle of equal treatment of U.S. and foreign banks, essentially the same as that which the House passed as H.R. 13876.

We continue to support these principles as contained in H.R. 13876 and recommend its enactment.

This bill has been called discriminatory by some observers. We do not agree that it is discriminatory.

On the contrary, our support of this legislation has always been based on our primary concern that foreign banks should have free access to American markets and their right to compete on equal terms with American banks should be preserved.

We would be opposed to discriminatory legislation, but we see nothing in this proposal legislation which would deny to foreign banks any significant rights or powers now enjoyed by American banks.

It has been suggested that foreign governments who might be persuaded that this legislation is discriminatory to foreign banks might retaliate with restrictive legislation aimed at foreign banks operating within their jurisdictions. While acknowledging this possibility, we find it difficult to imagine any conceivable basis for retaliation. We know of no country, other than the United States, where the law provides special competitive advantages to foreign-owned banks. We know of no instance in which American banks have sought preferential treatment from a foreign government.

Furthermore, to the extent that foreign banks have established facilities which enjoy preferential treatment, we do not seek to remove those privileges. We have all along endorsed the principle of "grandfathering" existing nonconforming activities. We believe that the grandfathering of nonconforming activities is in the best interests of the United States as an important issue of foreign policy.

Consdering the market share held by the foreign banks in the United States, the question before the committee is not a small matter. A few months ago the president of the Federal Reserve Bank of New York, speaking at our annual meeting, pointed out that "foreign bank assets in the United States exceeded $60 billion including $23 billion in commercial and industrial loans, about one-fifth of such loans held by large, weekly reporting banks."

While there are a number of complex issues involved here, the central point is rather simple: that it is appropriate for the general interests of any nation's population, including the health of its

financial system, to establish laws and regulations that place all participating institutions on an equal footing.

This is definitely not the case in the United States today, and H.R. 13876 is a prudent attempt to accomplish equal treatment.

Should any individual or institution desire to change certain basic principles of our banking system, such as the rules on interstate branching or the appropriate nonbanking financial services, that should be the subject of a different debate.

Thank your, Senator.

Senator McIntyre. Thank you very much.

Mr. Smith, I want you to know that last is certainly not least.

You have had an opportunity to hear the testimony this morning and I know there are organizations in support of this bill. Are you in a position to comment on some of the points raised this morning?

Again, with a view to assist us in somehow smoothing down the rough edges, rough spots, if indeed we do decide to try to move this legislation forward.

First, do you feel the elaborate regulatory schemes contained in section 7 are warranted or necessary?

Mr. Smith. Well, we are in favor of the dual banking system, which has both State and national banks and State regulation of State banks and Federal regulation of national banks.

We do feel that the United States is unique in its non-Federal regulation of State-chartered banks and foreign banks operating within its borders.

We have no strong objection to the Federal Reserve requiring equal reserve requirements of foreign banks operating in the United States, with those of domestic banks but the bill would be acceptable to us without mandatory regulation by the Federal Reserve.

Mr. Palmer. No, sir.

Senator McIntyre. Well, similarly, how do you feel about section 5?

It is a rather elaborate antibranching restriction contained in section 5. How strongly do you feel about this section?

Mr. Smith. I think it is the deposit gathering ability of foreign banks in more than one State which is the principal competitive advantage that is of concern to our membership.

We are not going to comment on the desirability of interstate branching.

The fact is, we are not permitted by the national banking laws to gather deposits in more than one State or to provide full-service banking in more than our own State.

So long as that is the case, it is of great concern to us that foreign banks may in fact establish full-service deposit gathering branches or subsidiaries in more than one State, so we would like to see those restrictions retained in the legislation.

Mr. Palmer. Mr. Chairman, if I might, I think it goes even a bit beyond whether or not there is fair treatment or something like that for an American bank as opposed to a foreign bank.

I think that the real issue before your committee is this: what is going to be the basic structure and regulatory environment for banking in this country and for various reasons it has been determined over the years that interstate branching is not permitted.

Whether I agree exactly with that is not the question. That is the modus operandi of the banking structure in this country.

If we are going to debate that, the McFadden Act, for example, let's debate it openly for all the institutions involved.

Let's not try to bring it in the back door as a matter of what a certain type of institution or foreign bank can do in this country.

Mr. SMITH. Also, Senator, it has been suggested that a lot of cities that would like to attract foreign banks would not be able to do so if section 5(a) were included in the legislation.

The legislation does allow foreign banks to own Edge Act corporations and Edge Act corporations can be chartered to do business in States which do not permit branching from out of State.

In that sense, this legislation and this section liberalizes the ability of the foreign banks to enter certain States. But on the same basis as American banks, with the establishment of Edge Act corporations.

Senator MCINTYRE. I guess you noted, the Treasury suggested section 9 be stricken from the bill. Do you agree with that?

Mr. SMITH. We have no objection to eliminating section 9.

Mr. PALMER. Section 9 simply, I think, is a good statement of the very essence of what is trying to be accomplished in the operation to the bill, let us have parity.

We think it strengthens it, although it is not a central point of the regulations involved.

Mr. SMITH. Incidentally, the bill is full of language which directs the regulatory authorities to encourage the participation of foreign banks in the U.S. market. This is good as far as we are concerned.

Senator MCINTYRE. Are you in a position to comment on those two amendments that I referred to all this morning, the Stephens amendment and the Rees-Murphy amendment over in the House, both of which were rejected?

Are you aware of these amendments?

Do you have any comments to make on them at this time?

Mr. SMITH. We would like to study it further and submit some comments to you, Senator McIntyre.

[Complete statement of Mr. Smith and a subsequent letter follows:]

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STATEMENT OF

DOUGLAS A. SMITH

PRESIDENT

BANKERS' ASSOCIATION FOR FOREIGN TRADE

ON H.R. 13876

BEFORE THE UNITED STATES SENATE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

OF THE

COMMITTEE ON BANKING, CURRENCY AND HOUSING

AUGUST 31, 1976

My name is Douglas A. Smith. I am the President of the Bankers' Association for Foreign Trade and Senior Vice President of the Industrial National Bank of Rhode Island. I am accompanied by Robert B. Palmer, who is a Vice President of the Association and chairman of the Association's committee on foreign banking in the U.S. He is also Executive Vice President of the Philadelphia National Bank. I am also accompanied by Thomas L. Farmer, Counsel for the Association and a partner of the firm, Prather Seeger Doolittle Farmer and Ewing.

As you know from our previous appearance before this Committee, we are the Association of those U.S. commercial banks which have active international banking departments. Our voting members include almost every American bank which operates a significant international department. Among these voting members are banks from 32 states.

The expansion of international services, in a climate of free and open competition to meet the needs of world trade and economic development is of primary concern to all of the members of the Association. For the past several years, and particularly since the promulgation of proposals by the Federal Reserve Board to regulate foreign banking in the United States, we have devoted

a considerable amount of attention to the question of equal treatment for foreign and domestically owned banks operating in the United States. The Association has had a standing committee on the subject since 1972 and has adopted planks in our general policy statement at every annual meeting since 1973.

The legislation before you is of great interest to our membership and we appreciate the opportunity to appear before the Committee to comment on it.

Basic to our position is our desire for a legal framework based on the concept of equal national treatment under which foreign banks would have the same rights to compete in the U.S. market as domestic banks and would be subject essentially to the same laws and regulations. When legislation embodying this proposal and correcting certain inequalities in our present laws was introduced in 1974 by the Federal Reserve Board (S. 958), it was supported by an overwhelming majority of our membership. Since the Federal Reserve Board proposal had not been given active consideration by the Congress, at our most recent annual meeting in April 1976 an overwhelming majority of the membership voted to support a bill then pending in the House of Representatives embodying the principle of equal treatment of U.S. and foreign banks, essentially the same as that which the House passed as H.R. 13876.

We continue to support these principles as contained in H.R. 13876 and recommend its enactment.

This bill has been called discriminatory by some observers. However, we do not agree. On the contrary, our support of this legislation has always been based on our primary concern that foreign banks should have free access to American markets and their right to compete on equal terms with American banks should be preserved. We would be opposed to discriminatory legislation but we see nothing in this proposed legislation which would deny to foreign banks any significant rights or powers now enjoyed by American banks.

It has been suggested that foreign governments who might be persuaded that this legislation is discriminatory to foreign banks might retaliate with restrictive legislation aimed at foreign banks operating within their jurisdictions. While acknowledging this possibility we find it difficult to imagine any conceiveable basis for retaliation. We know of no country, other than the United States, where the law provides special

competitive advantages to foreign-owned banks. We know of no instance in which American banks have sought preferential treatment from a foreign government. Furthermore, to the extent that foreign banks have established facilities which enjoy preferential treatment, we do not seek to remove those privileges. We have all along endorsed the principle of "grandfathering" existing non-conforming activities. We believe that the grandfathering of non-conforming activities is in the best interests of the U.S. as an important issue of foreign policy.

Considering the market share held by the foreign banks, the question before the Committee is not a small matter. A few months ago the President of the Federal Reserve Bank of New York, speaking at our annual meeting, pointed out that "foreign bank assets in the United States exceeded $60 billion including $23 billion in commercial and industrial loans, about one-fifth of such loans held by large, weekly reporting, banks."

While there are a number of complex issues involved here, the central point is rather simple: that it is appropriate for the general interests of any nation's population, including the health of its financial system, to establish laws and regulations that place all participating institutions on an equal footing. This is definitely not the case in the United States today, and H.R. 13876 is a prudent attempt to accomplish this. Should any individual or institution desire to change certain basic principles of our banking system, such as the rules on interstate branching or the appropriate non-banking financial services, that should be the subject of a different debate.

BANKERS' ASSOCIATION FOR FOREIGN TRADE
1101 SIXTEENTH STREET, N.W.
WASHINGTON, D. C. 20036

(202) 833-3060

September 8, 1976

Hon. Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
Senate Committee on Banking, Housing
and Urban Affairs
Room 5300 Dirksen Senate Office Building
Washington, D.C.

Dear Mr. Chairman:

As President of the Bankers' Association for Foreign Trade (BAFT), I first want to thank you and the members of your Subcommittee for inviting our Association to testify before you last Tuesday, August 31. During the question session that followed the presentation of our formal testimony, you asked me for the position of our Association regarding the various proposed amendments of Congressmen Stephens and Rees put forth during the debate in the House of Representatives on H.R. 13876. You will recall that I stated a preference for listing our precise thoughts in a letter to you, and this is the purpose of my writing today.

The proposed amendment to Section 5A that was offered by Congressman Stephens would have completely emasculated the bill in terms of its intent to place all commercial banks operating in this country on an equal footing with respect to the geographic location of branches or other operating units. Therefore, the BAFT strongly opposes the Stephens amendment, or any similar initiatives. While our Association supports practically all of the tenets of H.R. 13876 the primary issue of concern among the majority

of our membership, which is essentially the 140 largest American banks, is that there be equal legal and regulatory treatment of all banks operating in this country as to where they may place branches and other banking facilities. There is no sensible reason for permitting a certain class of financial institution -- that which is headquartered outside the U.S. -- to conduct a direct banking business in several states when the same is not permitted to all other financial institutions. Should there be a desire among legislators to debate and revise this longstanding principle of our financial system, I am certain that many BAFT members would want to be very much involved, but we do not believe that the basic principle of interstate banking should be breached on a piece-meal basis, which would be the inevitable result of legislation incorporating the essence of the Stephens amendment.

Similarly, the BAFT opposes Congressman Stephens' proposed amendment that would have revised Section 7 to the effect that the Federal Reserve Board would no longer have authority to regulate foreign banking activities in the U.S., and thereby to assure a consistent and equal treatment of such institutions throughout our country. To nullify this authority would result in a continuation of past procedures, which has resulted in a mixed pattern of foreign banking activities throughout several states, without controls relating to the conduct of monetary policy or depositor protection, without limitations as to the types of financial services that may be provided, etc.

The BAFT has consistently favored full grandfathering of non-conforming activities on the part of foreign banks in the U.S., both with respect to multistate banking activities and to bank-owned securities affiliates. This Association has testified consistently to this effect in its previous appearances before the Senate and House Banking Committees. It is our belief that these questions should be viewed not in a narrow context, but should be seen as an important element of foreign investment generally. The U.S. has for many years been the principle advocate of the benefits of foreign investment for both the recipient and the investing country. Many foreign countries have changed the rules for U.S. investment in their country after such investments have been in place, and invariably the U.S. has argued that changing the operating rules for foreign investment after the fact has been detrimental to foreign and domestic commerce, and has urged that such changes be kept to

a minimum. This broad principle with respect to foreign investment is sound and it should be followed in the treatment we accord foreign investments in the U.S.

For this reason, in my testimony before your Subcommittee on August 31, I specifically endorsed the Treasury recommendation that H.R. 13876 be amended to provide for permanent grandfathering of existing U.S. securities operations of foreign banks.

At the same time we can sympathize with the concerns expressed by Congressman Rees that the possible anti-competitive effects of permitting certain securities companies operating in this country to have access to bank affiliates while others do not, be subject to review by the Federal Reserve Board within three years. While we do not favor adoption of the Rees amendment we do not feel that its adoption would seriously damage the overall legislation which we do support.

Very truly yours,

Douglas A. Smith
President
Bankers' Association for
Foreign Trade

Senator McINTYRE. With that, gentlemen, I thank you for being here and thank you for your comments and those of your colleagues.

We are going to hold the record open only for 7 days, so all of those who wish to respond for the record, I would hope you would do so rapidly.

With that, we will adjourn.

(Whereupon, at 1:10 p.m., the hearing was adjourned.)

[Additional material submitted for the record follows:]

NEW YORK CLEARING HOUSE,
New York, N.Y., August 31, 1976.

Senator THOMAS J. McINTYRE,
Chairman, Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs, Dirksen Office Building, Washington,D.C

DEAR SENATOR McINTYRE: The Financial Institutions Subcommittee of the Senate Banking, Housing and Urban Affairs Committee has scheduled hearings for August 31, 1976 on H.R. 13876—the International Banking Act of 1976. The New York Clearing House Association (the "Association") has prepared this letter of comment on the Act for inclusion in the record of the hearings.

The Association reiterates its position that additional legislation regulating foreign banks is neither necessary nor desirable. The burden of proving that restrictive legislation is necessary should be placed on its proponents—particularly when legislation, such as the International Banking Act, limits competition. The proponents of the Act have failed to demonstrate that it will produce tangible benefits which justify its restrictive, and frequently inequitable, results.

Beyond its general opposition to legislation restricting foreign bank operations, the Association objects to a number of specific provisions in the International Banking Act because they result in discrimination against foreign banks. These provisions run counter to the Act's stated objective of "insur[ing] equal treatment" for foreign and domestic banks. 115 Cong. Rec. H. 7936, 7937, 7938 (July 29, 1976) (remarks of Representatives Moakley, Reuss and St Germain). The balance of this letter outlines the inequities created by these provisions and the resultant danger of retaliation against American banks.

1. FAILURE TO PROVIDE PERMANENT GRANDFATHER RIGHTS FOR SECURITIES AFFILIATES

Section 8(c) of the International Banking Act is intended to force foreign banks to divest their United States securities affiliates prior to December 31, 1985, irrespective of when these affiliates were established.[1] The failure to provide permanent grandfather rights for securities affiliates would be highly inequitable, would limit competition and would fail to accomplish the purposes intended to be served by the statute.

The divestiture requirement would render virtually valueless significant investments of personnel and money by foreign banks in their securities affiliates. These investments were all made in accordance with what was then applicable United States law, and in many cases are of long standing. There is no basis for refusing grandfather rights which is sufficiently compelling to justify forced termination of these lawfully established business operations. The Board of Governors of the Federal Reserve System has asserted that "no public purpose would be served by requiring divestiture". Board of Governors of the Federal Reserve System, "Foreign Bank Act of 1974, Summary of Principal Features" at 12 (December 3, 1974).

A failure to afford grandfather rights for securities affiliates would discriminate against foreign banks. Foreign banks would not be provided with grandfather rights for their securities affiliates, although grandfather rights for non-banking activities were made universally available to domestic banks. As a matter of equity, legislation restricting the activities of domestic banks provides grand-

[1] Although the Act would permit securities affiliates to engage in a very limited range of activities after 1985, the limitations would be so severe as probably to make continued operation uneconomic. Indeed, confronted with the prospect of mandatory divestiture in 1985, it is likely the most foreign banks will discontinue operation of their securities affiliates as soon as possible.

father rights in the absence of a serious impact on the general welfare. In addition to Section 4 of the Bank Holding Company Act, prominent examples of permanent grandfather rights include Section 3(d) of the Bank Holding Company Act and the McFadden Act. As the Federal Reserve Board concluded: "[F]ailure to permanently grandfather existing operations would be unduly harsh and unfair in light of grandfather privileges previously extended bank holding companies." Hearings on Financial Institutions and the Nation's Economy Before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the House Committee on Banking, Currency and Housing, 94th Cong., 1st Sess. 997 (1975).

The announced objective of securities affiliate divestiture is the elimination of an alleged competitive advantage which foreign banks enjoy over domestic banks. 115 Cong. Rec. H. 7961 (July 29, 1976) (remarks of Representative Wylie). If, as any realistic study will demonstrate, these securities affiliates do not provide foreign banks with a meaningful competitive advantage, there is no justification for a mandated divestiture.

The member banks of this Association, which include nine of the twenty-five largest banks in the country, do not believe that they suffer from a competitive disadvantage as a result of foreign bank securities affiliates. Nor are we aware that any other domestic bank has expressed such a concern. Indeed, any suggestion that these securities affiliates represent a competitive threat is belied by their small number and the limited scope of their activities.[2]

2. MULTI-STATE BANKING OPERATIONS

Section 5(a) of the International Banking Act would prohibit a foreign bank from establishing additional branches in more than one state. A comparison of the potential benefit to be gained by such a prohibition with its potential harm requires the conclusion that the prohibition should not be adopted. It fails to advance significantly its objective of competitive equality, while it conflicts with such important policy goals as non-discrimination and increased competition.

The proposed prohibition would not significantly advance a policy of competitive equality between domestic and foreign banks because there is no existing significant inequality. The capacity of foreign banks to engage in multi-state operations is quite limited. Foreign banks are permitted to establish deposit-taking branches in only five states. Even in those states, the combination of state law restrictions and the unavailability of federal deposit insurance prevents foreign bank branches from competing for retail business. The ability of foreign banks to finance international trade through branches in several different states does not result in any significant competitive advantage. Domestic banks finance international trade by establishing Edge Act Corporations outside their home state.

The Section 5(a) prohibition would discriminate against foreign banks. The branching powers of foreign banks cannot exceed those which are accorded to national banks, but the branching powers of national banks can exceed those of foreign banks. As noted above, a second area of discrimination results from the inability of a foreign bank to establish additional branches in a state (other than its home state) in which it has grandfathered branches.

The Section 5(a) prohibition will constrain the development of such major American cities as Atlanta, Boston, Houston, Philadelphia and St. Louis as international financial and trade centers. In effect, each foreign bank will be forced to choose one state in which to conduct its banking activities. Since in most cases economics will dictate a choice of New York, or possibly California or Illinois, major cities in other states will be unable to attract foreign bank branches.

It should further be recognized that federal legislation is not necessary to prevent foreign banks from obtaining an unfair competitive advantage through multi-state operations. A state can deny a branch charter to a foreign bank on the ground that its operations in other states provide it with an unfair competitive advantage. The decision by such major states as New York, California and Illinois to charter foreign bank branches irrespective of their out-of-state operations represents a determination that these multi-state activities do not place domestic banks at a competitive disadvantage.

[2] The legislative history of the Glass-Steagall Act precludes any argument that it was intended to protect the investment banking industry from competition from commercial banks, domestic or foreign.

3. MANDATORY FEDERAL DEPOSIT INSURANCE AND RESERVE REQUIREMENTS

Sections 6 and 7 of the International Banking Act would, respectively, require foreign banks to maintain a surety bond or pledge of assets in lieu of federal deposit insurance and maintain reserves against deposits. These requirements appear to be discriminatory as a matter of principle. Domestic banks are not required to become members of the Federal Reserve System nor to accept federal deposit insurance.[3] As you have aptly noted:

"If that [a policy of mutual non-discrimination] is so, how can the Fed justify mandatory Fed membership? Mandatory Fed membership is not required of State-chartered banks in this country, and I, for one, simply do not understand how we could impose such a requirement on foreign banks without it being out and out discriminatory." Hearings on S. 958 Before the Subcomm. on Financial Institutions of the Senate Comm. on Banking, Housing and Urban Affairs, 94th Cong., 2d Sess. 35 (1976).

4. DANGER OF RETALIATION AGAINST AMERICAN BANKS OPERATING ABROAD

This Association has on a number of occasions expressed its concern that the passage of federal legislation which treats foreign banks unfairly creates a serious risk of retaliation against United States banks operating abroad. Approximately 125 United States banks conduct operations in foreign countries, and their aggregate, foreign assets exceed $150 billion. The Federal Reserve Board has also cautioned that the absence of permanent grandfather privileges would create a danger of retaliation against American banks operating abroad. Hearings on Financial Institutions and the Nation's Economy at 997; Hearings on S. 958 at 18, 50, 168.

The concern of this Association over possible retaliation appears to have been substantiated by recent statements issued by foreign banks. As reported in *The Times* (London) two weeks before House passage of the International Banking Act: "[T]here is already talk in banking circles of retaliatory measures being introduced [in Germany]."

Several days after passage, the President of Europartners Securities Corporation stated in an interview with *Handelsblatt* that the International Banking Act " . . . would leave the European banks affected by it no choice but to appeal to their governments for retaliatory restrictions on the operations of American banks and brokers in Europe."

This morning's *New York Times* contains a lead article datelined Bonn, Germany the first paragraph of which summarizes the views of the German banks: "An American bill that would put tighter controls on foreign banks in the United States is stirring up talk of retaliation here against American banks doing business in Western Europe. The West German bankers say that if the American bill becomes law, it could constrict the flow of European investment to American companies and cities that badly want foreign capital."

The *New York Times* likewise warned of the danger of retaliation in an editorial in its August 17, 1976 edition.

In conclusion, The New York Clearing House Association believes that federal legislation regulating foreign banks should not be enacted, because there is no demonstrated need for imposing additional restrictions on the operations of foreign banks in this country. In the event that Congress were to determine that such legislation is needed, it must be shaped to avoid the inequities and discrimination which would result from the International Banking Act.

Very truly yours,

JOHN F. LEE,
Executive Vice President.

A. D. SISMANIDIS,
Washington, D.C., August 24, 1976.

Senator WILLIAM PROXMIRE,
Chairman, Senate Banking, Housing and Urban Affairs Committee,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR PROXMIRE: The National Bank of Greece, S.A., has authorized me to act on its behalf toward the establishment of four branch offices in the United States. I am writing to you to express our deep concern over certain provisions of H.R. 13876, passed by the House and referred to your committee

[3] There are, in fact, eight non-member domestic banks with assets exceeding one billion dollars.

on July 30, 1976, which, were then to become law, would make impossible any expansion of the modest banking operation of The National Bank of Greece in the United States of America.

As you may know, The National Bank of Greece is the oldest and the largest banking institution of Greece, having been established in 1841 with present assets in excess of Six Billion Dollars. The National Bank of Greece has only one branch in the United States, located in Chicago, Illinois. Plans have been initiated for the establishment of four additional branches, one in the District of Columbia and one each at the seashores of the States of Massachusetts, California and Texas. However, the preparatory work to the establishment of those branches is time consuming, requiring careful market analysis surveys, securing requisite local and state government approvals, the selection and acquisition of a location and subsequent activity necessary to opening for business.

The plans of the National Bank of Greece, and the efforts made to bring those plans to fruition, would be nullified by the passage of H.R. 13876. Specifically, Section 5 of the Bill, presently incorporating a May 1, 1976, cut-off date, would retroactively void applications now duly filed, or to be filed, in accordance with existing law. At a minimum, lines 18, 19 and 20 of Section 5, appearing on page 13 of H.R. 13876, should be amended to protect any application filed prior to the date of enactment of H.R. 13876. The following language is suggested: "operation was lawfully commenced, or with respect to which an application was duly filed with the appropriate State authority, prior to the date of enactment of this Act."

While the suggested amendment would ameliorate some of the hardship which H.R. 13876 would impose upon The National Bank of Greece, I would respectfully suggest that as a matter of sound international banking policy your law ought to permit the establishment of a foreign branch in any state where such establishment is expressly permitted by the law of the state.

In the course of the debate on the House floor of an amendment to Section 5 to this effect submitted by Mr. Stephens of Georgia, Stephens and his colleagues voiced considerable concern that because foreign banks would in the future be permitted to establish branches in only one state, foreign banks would choose California or New York almost exclusively, greatly to the detriment of the few states which encourage branching of foreign banks in order to promote their states respective roles in international finance.

The thrust of H.R. 13876 is to create competitive equality within the United States between foreign and domestic banks operating in the United States. It ignores the present inbalance in favor of the United States in the world at large. The United States is a net exporter of banking facilities.

Specifically with reference to Greece, United States banking institutions operating one or more branches in Greece are: the First National City Bank of New York, the Chase Manhattan, New York, the Bank of American of California, the American Express, New York, the First National Bank of Chicago and the Continental Bank of Illinois. In addition, the Manufacturers Hanover Trust Company of New York is a substantial partner with the Credit Bank of Athens, operating throughout Greece and the Chemical Bank of New York is working now towards application for the establishment of a branch in Athens.

In view of the above, the restriction of Section 5 of H.R. 13876 is discriminatory against Greek banks. It is our belief that the bill in general would have far reaching detrimental effects in the international banking community. Its passage will inevitably stimulate retaliatory action and legislation elsewhere in the world.

It is my belief that regulation of foreign banking activity in the United States for the purpose of assuring fiscal responsibility and protection of United States depositors is in the best interests of the international banking community. If the bill were modified to incorporate such regulation without attempting to freeze an existing United States competitive advantage in bank branching, but permitting instead reciprocal international multi-state branching, the common interests of all would be furthered.

I would greatly appreciate having an opportunity to meet with you and discuss the views I have expressed and the course of the bill through the Senate.

Very truly yours,

A. D. Sismanidis,
Consultant, National Bank of Greece.

TELEPHONE 212/285-2000 CABLE ADDRESS-"WHITEWELD"

WHITE WELD HOLDINGS, INC.

ONE LIBERTY PLAZA
91 LIBERTY STREET, NEW YORK, N.Y. 10006

September 9, 1976

The Honorable Thomas J. McIntyre
Chairman
Subcommittee on Financial Institutions
United States Senate
Washington, D. C.

Dear Mr. Chairman:

I understand that the Subcommittee on Financial Institutions is in the process of considering H.R. 13876, the International Banking Act of 1976 (the "Bill"), which was passed by the House of Representatives on July 29, 1976. On behalf of White Weld Holdings, Inc. ("Holdings") and White, Weld & Co. Incorporated ("White Weld"), I would like to submit for your consideration these comments with respect to Section 8 of the Bill.

White Weld, a registered broker-dealer under Section 15 of the Securities Exchange Act of 1934, is a wholly-owned subsidiary (except for qualifying shares which are beneficially owned by the parent company) of White Weld Holdings, Inc. Approximately 30% of the capital stock (including approximately 25% of the voting securities) of Holdings is owned by Societe Anonyme financiere du Credit Suisse et de White, Weld ("Financiere"), and Holdings, in turn, owns approximately 30% of the equity of Financiere. Approximately 41% of the voting securities of Financiere are owned by Swiss Credit Bank. White Weld's relationship with Swiss Credit Bank goes back a number of years and has developed in a series of steps into the structure of stock ownership (outlined above) which has existed in its present form since April of 1974. Because of these circumstances, White Weld is particularly aware of the advantages that have inured to the United States capital markets from the additional capital provided by foreign banks.

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As adopted by the House of Representatives, the Bill would prohibit any foreign bank with a branch or agency in the United States from acquiring or retaining direct or indirect ownership or control of any voting shares of any nonbanking company in the United States, including an investment banking company, except to the extent permitted by the Board of Governors of the Federal Reserve System under Section 4 of the Bank Holding Company Act or by subsection (c) of Section 8 of the Bill. If such ownership or control existed on December 3, 1974, the prohibition would not take effect until December 31, 1985. As a result, after 1985 foreign banks would be forced to either give up their commercial banking presence in the United States or to give up all United States investment banking activities. We submit that for a foreign institution faced with this alternative the only likely choice is to give up its participation in investment banking activities.

As a broker-dealer, we are particularly concerned about the long-range capability of many firms in our industry to attract capital if this important source of investment is no longer available to us. In a securities industry which has been shrinking by merger and liquidation, which has been characterized by a withdrawal of capital and difficulty in tapping the public markets for a solid capital base, the existing and potential contribution of capital to U.S. brokerage firms by foreign financial institutions has been the one significant bright spot. The capital invested by foreign banks in the formation of United States investment banking firms has contributed to the financial and competitive strength of our capital markets. In addition, to the extent such capital has been invested in existing U.S. broker-dealers, it has permitted such broker-dealers to expand the scope of their operations, thereby enhancing the ability of these firms to compete vigorously in many aspects of the securities business, particularly those such as underwriting and position-taking which may be considered to be capital-intensive activities. This investment by foreign banks has also contributed greatly to the stability and future growth prospects of the securities industry. We would strongly urge the Congress to give the fullest consideration to the impact of Section 8 on the ability of U.S. investment banking firms to raise capital, and to the importance of that ability to the U.S. economic system, before the passage of the legislation.

In making a capital commitment to the securities industry, foreign banks have relied in good faith on longstanding legislative and regulatory policies which have heretofore encouraged foreign investments in the United

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States. The divestiture required after 1985 by Section 8 would, in effect, penalize those entities which have demonstrated over a long period of time the willingness to provide resources to and compete in the United States economy. In addition, we believe that such action at this time, whether or not given delayed effect, may result in some form of retaliation by foreign regulatory bodies restricting the right of United States firms to do investment banking abroad.

Last year Congress enacted sweeping securities legislation, the Securities Reform Act of 1975 (the "Securities Acts Amendments"), with the needs of international economic policy in mind. In recommending approval of the legislation, the Conference Report of the House Committee on Interstate and Foreign Commerce and the Senate Committee on Banking, Housing and Urban Affairs noted that:

> "The securities markets of the United States are indispensable to the growth and health of this country's and the world's economy. In order to raise the enormous sums of investment capital that will be needed in the years ahead and to assure that that capital is properly allocated among competing uses, these markets must continue to operate fairly and efficiently. The increasing tempo and magnitude of the changes that are occurring in our domestic and international economy make it clear that the securities markets are due to be tested as never before. Unless these markets adapt and respond to the demands placed upon them, there is a danger that America will lose ground as an international financial center and that the economic, financial and commercial interests of the Nation will suffer." Conf. Rep. No. 94-229, 94th Cong., 1st Sess. 91 (1975).

In order to meet these goals, the Securities Acts Amendments called for the development of a national market system, which would "evolve through the interplay of competitive forces as unnecessary regulatory restrictions are removed." Conf. Rep. No. 94-229, 94th Cong., 1st Sess. 92 (1975). As one aspect of this competitive environment, the Securities Acts Amendments amended Section 6 of the Exchange Act to affirmatively require all national securities exchanges to accept for membership any broker or dealer who could meet certain financial and competency requirements. Although it was suggested during the course of deliberation on

these provisions that any broker or dealer affiliated with a foreign bank be disqualified from membership on any national securities exchange, Congress declined to take such action. In keeping with this mandate, recently the Securities and Exchange Commission rejected proposed rules of the New York Stock Exchange, Inc. that would have barred from membership foreign-controlled brokerage firms and banks.

There are several ways in which the contribution of capital from foreign banks enhance competition in the securities industry. For example, with additional capital, broker-dealers are able to expand their market-making capability, both by expanding the number of securities in which they are willing to take positions and by increasing the size of such positions. Thus investors are provided with greater liquidity and depth in a greater number of issues.

Another benefit to the U.S. securities markets provided by direct and indirect foreign bank participation in such markets is the link they provide to international markets. Since foreign banks engage in brokerage activities abroad, their activity here helps to direct business to this country as competition and the relative liquidity of our markets attract the attention of international business. Not only do the markets benefit by this increased activity, but United States issuers benefit as they are able to take advantage of additional investors in the market to attract new sources of investment capital.

For the reasons set forth herein, we recommend that Section 8 of the Bill either be deleted from the proposed legislation or modified to permit permanent grandfathering for investment banking activities. We appreciate the opportunity to submit these comments for your consideration.

Very truly yours,

L. Emery Katzenbach

L. Emery Katzenbach
Chairman

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